

COUNTY OF RAPPAHANNOCK, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

COUNTY OF RAPPAHANNOCK, VIRGINIA

Board of Supervisors

Roger A. Welch, Chair

S. Bryant Lee, Vice-Chair
Chris Parrish

Ronald L. Frazier
Mike Biniek

County School Board

John Wesley Mills, Chair

Aline Johnson, Vice-Chair
Meredith Gorfein

Rosa Crocker
Paul A. Brown

County Social Services

Judith Tole

Ruth Kiger

Deborah Fluornoy

County Library Board

Louise VanDort, Chair

John T. Feeney
John McCarthy
Marie Davis

Fran Krebsner
Nancy Ely Raphael
James Oyster

Kathleen Grove

Other Officials

Judge of the Circuit Court	Jeffrey Parker
Clerk of the Circuit Court	Margaret R. Ralph
Judge of the General District Court	Charles Foley
Judge of Juvenile & Domestic Relations District Court.....	Gregory Ashwell
Commonwealth's Attorney & County Attorney	Peter H. Luke
Commissioner of the Revenue	Beverly S. Atkins
Treasurer.....	Frances A. Foster
Sheriff	Connie Smith
Superintendent of Schools	Dr. Aldridge Boone
Director of Department of Social Services.....	Beverly Dunford
Librarian	Dave Shaffer
County Administrator	John McCarthy

COUNTY OF RAPPAHANNOCK, VIRGINIA

Financial Report
Year Ended June 30, 2010

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

The Honorable Members of the Board of Supervisors County of Rappahannock, Virginia

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of and for the year ended June 30, 2011, 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 of Rappahannock, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 the 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the County of Rappahannock, Virginia adopted the provisions of *GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the County of Rappahannock, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Rappahannock, Virginia's financial statements as a whole. The combining and individual fund financial statements and schedules, and statistical information, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Robinson, Turner, Cox Associates
Charlottesville, Virginia
December 21, 2011

Basic Financial Statements

Government-Wide Financial Statements

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Statement of Net Assets
At June 30, 2011

	Component Units		
	Governmental Activities	School Board	Recreational Facilities Authority
Assets:			
Cash and cash equivalents	\$ 4,279,311	\$ 1,152,846	\$ 48,568
Investments	586,859	-	-
Receivables, net			
Due within one year	786,452	7,455	-
Due in more than one year	309,739	-	-
Prepays	-	111,361	-
Inventory	-	13,833	-
Due from component unit School Board	468,434	-	-
Due from other governments	465,665	376,298	-
Capital assets:			
Land and construction in progress	1,706,773	339,752	20,000
Other capital assets, net of accumulated depreciation	6,110,015	4,941,003	25,806
Capital assets, net	\$ 7,816,788	\$ 5,280,755	\$ 45,806
Total assets	\$ 14,713,248	\$ 6,942,548	\$ 94,374
Liabilities:			
Accounts payable and accrued expenses	\$ 232,638	\$ 1,159,526	\$ -
Compensated absences	200,862	101,854	-
Prepaid real estate taxes	10,497	-	-
Due to primary government	-	468,434	-
Long-term liabilities:			
Due within one year:			
Bonds and loans payable	399,323	-	-
Due in more than one year:			
Bonds and loans payable	3,807,413	-	-
Other post employment benefits	-	161,000	-
Accrued landfill remediation costs	2,180,103	-	-
Total liabilities	\$ 6,830,836	\$ 1,890,814	\$ -
Net Assets:			
Invested in capital assets, net of related debt	\$ 3,610,052	\$ 5,280,755	\$ 45,806
Unrestricted (deficit)	4,272,360	(229,021)	48,568
Total net assets	\$ 7,882,412	\$ 5,051,734	\$ 94,374

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	\$ 1,132,198	\$ 15,835	\$ 161,777	\$ -
Judicial administration	532,309	38,626	320,365	-
Public safety	2,953,428	161,191	814,591	-
Public works	877,034	87,385	56,338	-
Health and welfare	1,854,208		1,100,512	-
Education	8,343,786			-
Parks, recreation and cultural	246,421	2,217	33,651	-
Community development	378,414		43,106	-
Interest on long-term debt	181,458			-
Total Primary Government	\$ 16,499,256	\$ 305,254	\$ 2,530,340	\$ -
Component Units				
Rappahannock County Public Schools	\$ 11,531,400	\$ 256,654	\$ 3,314,033	\$ -
Rappahannock County Recreational Facilities Authority	18,751	14,906	-	-
Total Component Units	\$ 11,550,151	\$ 271,560	\$ 3,314,033	\$ -

General Revenues

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumers' utility taxes

Taxes on recordation of wills

Motor vehicle licenses

Meals and lodging taxes

Other

Payment from County of Rappahannock -- Education

Grants and contributions not restricted to specific programs

Unrestricted revenues from use of money and property

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning of year - as restated

Net assets, end of year

The accompanying notes to financial statements are an integral part of this statement.

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Component Units		
Total Primary Government	School Board	Recreational Facilities Authority
\$ (954,586)	\$ -	\$ -
(173,318)	-	-
(1,977,646)	-	-
(733,311)	-	-
(753,696)	-	-
(8,343,786)	-	-
(210,553)	-	-
(335,308)	-	-
(181,458)	-	-
<u>\$ (13,663,662)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ (7,960,713)	\$ -
<u>-</u>	<u>-</u>	<u>(3,845)</u>
<u>\$ -</u>	<u>\$ (7,960,713)</u>	<u>\$ (3,845)</u>
\$ 10,480,557	\$ -	\$ -
450,218	-	-
150,586	-	-
101,011	-	-
150,291	-	-
151,890	-	-
160,321	-	-
-	8,337,841	-
1,302,957	-	-
143,521	-	8
169,700	72,431	-
<u>\$ 13,261,052</u>	<u>\$ 8,410,272</u>	<u>\$ 8</u>
\$ (402,610)	\$ 449,559	\$ (3,837)
<u>8,285,022</u>	<u>4,602,175</u>	<u>98,211</u>
<u>\$ 7,882,412</u>	<u>\$ 5,051,734</u>	<u>\$ 94,374</u>

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Fund Financial Statements

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Balance Sheet
 Governmental Funds
 At June 30, 2011

	General Fund	Library Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 4,235,411	\$ 43,900	\$ 4,279,311
Investments	-	586,859	586,859
Property taxes receivable, net	663,177	-	663,177
Accounts receivable	96,040	-	96,040
Notes receivable	336,974	-	336,974
Due from component unit School Board	468,434	-	468,434
Due from other governments	465,665	-	465,665
Total assets	<u>\$ 6,265,701</u>	<u>\$ 630,759</u>	<u>\$ 6,896,460</u>
Liabilities:			
Accounts payable and accrued liabilities	\$ 147,856	\$ -	\$ 147,856
Deferred revenue	947,864	-	947,864
Total liabilities	<u>\$ 1,095,720</u>	<u>\$ -</u>	<u>\$ 1,095,720</u>
Fund Balance:			
Committed for:			
Library operations	\$ -	\$ 630,759	\$ 630,759
Unassigned	5,169,981	-	5,169,981
Total fund balance	<u>\$ 5,169,981</u>	<u>\$ 630,759</u>	<u>\$ 5,800,740</u>
Total liabilities and fund balance	<u>\$ 6,265,701</u>	<u>\$ 630,759</u>	<u>\$ 6,896,460</u>

The accompanying notes to financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
At June 30, 2011

Total fund balances for governmental funds (Exhibit 3) \$ 5,800,740

Total net assets reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,706,773	
Buildings and improvements, net of depreciation	1,749,158	
Furniture, equipment, and vehicles net of depreciation	1,092,603	
School buildings, improvements and equipment, net of depreciation	<u>3,268,254</u>	
Total capital assets		7,816,788

Some of the County's receivables will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as deferred revenue in the funds.

Taxes receivable	\$ 600,393	
Note receivable	<u>336,974</u>	
Total		937,367

Liabilities applicable to the County's governmental activities which are not due and/or payable in the current period are not reported as fund liabilities. Balances of such liabilities affecting net assets are as follows:

Accrued interest on debt	\$ (84,782)	
Bonds and loans payable	(4,206,736)	
Compensated absences	(200,862)	
Accrued landfill remediation costs	<u>(2,180,103)</u>	
Total		<u>(6,672,483)</u>

Total net assets of governmental activities (Exhibits 1 and 2) \$ 7,882,412

The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2011

	General Fund	School Construction Fund	Library Fund	Total Governmental Funds
Revenues:				
Property taxes	\$ 10,648,993	\$ -	\$ -	\$ 10,648,993
Other local taxes	1,164,317	-	-	1,164,317
Permits, privilege fees and regulatory licenses	87,254	-	-	87,254
Fines and forfeitures	81,982	-	-	81,982
Use of money and property	34,888	-	108,633	143,521
Charges for services	133,801	-	2,217	136,018
Miscellaneous	266,050	-	4,448	270,498
Recovered costs	106,596	-	-	106,596
Intergovernmental:				
Revenue from the Commonwealth	3,241,462	-	33,651	3,275,113
Revenue from the Federal Government	558,184	-	-	558,184
Total revenues	<u>\$ 16,323,527</u>	<u>\$ -</u>	<u>\$ 148,949</u>	<u>\$ 16,472,476</u>
Expenditures:				
Current:				
General government administration	\$ 1,095,574	\$ -	\$ -	\$ 1,095,574
Judicial administration	531,059	-	-	531,059
Public safety	2,978,876	-	-	2,978,876
Public works	1,136,225	-	-	1,136,225
Health and welfare	1,853,253	-	-	1,853,253
Education - local community college	5,945	-	-	5,945
Education - public school system	8,029,943	-	-	8,029,943
Parks, recreation and cultural	9,500	-	187,118	196,618
Community development	378,414	-	-	378,414
Capital projects	19,989	-	-	19,989
Debt service:				
Principal payments	389,439	-	-	389,439
Interest and fiscal charges	209,620	-	-	209,620
Total expenditures	<u>\$ 16,637,837</u>	<u>\$ -</u>	<u>\$ 187,118</u>	<u>\$ 16,824,955</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (314,310)</u>	<u>\$ -</u>	<u>\$ (38,169)</u>	<u>\$ (352,479)</u>
Other financing sources (uses):				
Transfers in	\$ 72	\$ -	\$ 115,908	\$ 115,980
Transfers out	(115,908)	(72)	-	(115,980)
Insurance recoveries	5,295	-	-	5,295
Total other financing sources (uses)	<u>\$ (110,541)</u>	<u>\$ (72)</u>	<u>\$ 115,908</u>	<u>\$ 5,295</u>
Net change in fund balance	<u>\$ (424,851)</u>	<u>\$ (72)</u>	<u>\$ 77,739</u>	<u>\$ (347,184)</u>
Fund balance, beginning of year - as restated	<u>5,594,832</u>	<u>72</u>	<u>553,020</u>	<u>6,147,924</u>
Fund balance, end of year	<u><u>\$ 5,169,981</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 630,759</u></u>	<u><u>\$ 5,800,740</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(347,184)	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			34,438
School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship increased the transfers to the School Board.		(307,898)	
In the statement of activities, a gain on the sale of property is recorded when the sale occurs. When a note receivable is given in consideration, interest income is also recorded as the note is repaid. In a governmental fund, when property is sold and a note receivable is given as consideration, income is only recognized to the extent that principal and interest payments are received.		(100,798)	
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires an adjustment to convert the revenues to the accrual basis.		(168,436)	
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.			
Repayments:			
General obligation school bonds	\$	365,000	
Capital leases		24,439	
Amortization of bond premium		20,189	
Net adjustment			409,628
Decrease in accrued landfill remediation costs			50,739
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:			
Compensated absences	\$	18,928	
Accrued interest on bonds and loans		7,973	
Net adjustment			26,901
Change in net assets of governmental activities (Exhibit 2)	\$		(402,610)

The accompanying notes to financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets
At June 30, 2011

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ <u>23,009</u>
Total assets	\$ <u><u>23,009</u></u>
Liabilities:	
Amounts held for others	\$ <u>23,009</u>
Total liabilities	\$ <u><u>23,009</u></u>

The accompanying notes to financial statements are an integral part of this statement.

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COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

The County of Rappahannock (the County), located in northwest Virginia and bordered by the counties of Fauquier, Culpeper, Madison, Page and Warren, was founded in 1833. The County has a population of 7,373 and land area of 267 square miles.

The County is governed under the County Administrator - Board of Supervisors form of government. Rappahannock County engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, human service programs, planning, community development and recreation, and cultural activities.

The financial statements of the County have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the government and its discretely presented component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize they are legally separate from the government.

Discretely Presented Component Units

The Rappahannock County School Board is responsible for elementary and secondary education within the County. School Board members are elected by the County voters. The School Board is fiscally dependent upon the County because the County's Board of Supervisors approves the School Board budget, provides substantial funding for operations and must approve any debt issuance. The Rappahannock County School Board does not prepare separate financial statements.

The Rappahannock County Recreational Facilities Authority administers and maintains the Rappahannock County Recreation Center. The County's Board of Supervisors appoints the members of the Recreational Facilities Authority, and the County Administrator manages its operations. Because the County effectively controls the Authority, it has been presented as a component unit of the County. The Recreational Facilities Authority does not prepare separate financial statements.

The Recreational Facilities Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting.

Related Organization - The County's Board of Supervisors appoints the board members of the Rappahannock County Water and Sewer Authority; however, the County's accountability for the organization does not extend beyond making board appointments. The Water and Sewer Authority operates the Sperryville area water and sewer systems.

The Water and Sewer Authority is not included in the reporting entity. A copy of its financial statements can be obtained from the County Administrator's office.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual fiduciary funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide financial statements. The County does not report any private purpose trust funds.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

The following is a brief description of the specific funds used by the County in fiscal year 2011.

1. Governmental Funds: The County has the following major funds for financial reporting purposes.
 - a. General Fund: The General Fund is the general operating fund for the County. This fund accounts for and reports all revenues and expenditures of the County which are not accounted for and reported in the other funds. The General Fund also includes the activities for E-911, the law library and landfill operations. The General Fund is considered a major fund for reporting purposes.
 - b. School Construction Fund: This fund accounts for and reports resources and expenditures for school construction. Primary funding sources are school bond proceeds and investment earnings.
 - c. Special Revenue Fund: The Special Revenue Fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service. The Special Revenue Fund consists of the Library Fund which is considered a major fund.

2. Fiduciary Funds (Trust and Agency Funds):

Fiduciary Funds (Trust and Agency Funds) account for assets held by the County in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of the Special Welfare Fund.

The County has no Trust Funds.

3. Component Units:

- a. Rappahannock County School Board: The Rappahannock County School Board has the following major funds for financial reporting purposes:

Governmental Funds:

School Operating Fund - This fund is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the County of Rappahannock and State and Federal grants.

School Cafeteria Fund - This fund accounts for the operations of the School Board's food service program. Financing is provided primarily by food and beverage sales and State and Federal grants.

- b. Rappahannock Recreational Facilities Authority: The Rappahannock Recreational Facilities Authority consists of only one fund, which is an enterprise fund.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

The County applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The Board of Supervisors annually adopts budgets for the various funds of the primary government and component unit School Board. All appropriations are legally controlled at the department level for the primary government funds. The School Board appropriation is determined by the Board of Supervisors and controlled in total by the primary government.

The budgets are integrated into the accounting system and the budgetary data, as presented in the financial statements for all major funds with annual budgets, comparing the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the major funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

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

1. Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Board of Supervisors. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories. Public hearings are required to amend the budget if amendments exceed 1% of the original adopted budget or \$500,000 whichever is less.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. The component unit School Board funds are integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Budgets and Budgetary Accounting (Continued)

8. All budgetary data presented in the accompanying financial statements is the original budget as of June 30, 2010, as adopted, appropriated and legally amended.
9. The expenditures budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government and at the function level for the School Board. If budget amendments exceed 1% of the original adopted budget, the Board of Supervisors may legally amend the budget only by following procedures used in the adoption of the original budget. There was no budget amendment during the year that exceeded the 1% or \$500,000 limitations. The Board of Supervisors must approve all appropriations and transfers of appropriated amounts.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Investments for the government, as well as for its component units, are reported at fair value.

F. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$474,446 at June 30, 2011 and is comprised solely of property taxes.

G. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the primary government and component unit School Board, and as assets in the government-wide financial statements to the extent the County's and School Board's capitalization threshold of \$5,000 is met. The County and component unit School Board do not have any infrastructure in their capital assets since roads, streets, bridges and similar assets within their boundaries are property of the Commonwealth of Virginia. Depreciation is recorded on general capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings and improvements	20 to 40 years
Furniture, equipment and vehicles	5 to 10 years

All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment purchases 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 included in the results of operations.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Compensated Absences

The County and component unit School Board incur liabilities related to compensated absences (annual and sick leave benefits) when vested. Because the timing of the settlement of the liability related to compensated absences is not considered to be estimable, the entire amount of the liability has been classified as current in the government-wide financial statements.

I. Use of Estimates

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

J. Long-Term Obligations

The County reports long-term debt at face value. The face value of the debt is believed to approximate fair value.

K. Fund Equity

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

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

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

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

K. Fund Equity: (Continued)

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

In the general fund, the County strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 10% of the actual GAAP basis expenditures and other financing sources and uses.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

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

Custodial Credit Risk (Investments)

The County of Rappahannock’s investments at June 30, 2011 were held by the County or in the County’s name by the County’s custodial banks or counterparty; except \$52,299 of Taxable Municipal Bonds where the underlying securities were uninsured and held by the County’s counterparty, and \$116,428 of Common Equities where the underlying securities were uninsured and held by the County’s counterparty.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The County's rated debt investments as of June 30, 2011 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's rating scale.

County's Rated Debt Investments' Values		
Rated Debt Investments	Fair Quality Ratings	
	AA-	Unrated
Taxable Municipal Bonds	\$ 52,299	\$
Closed End Mutual Fund	-	36,529
Open End Mutual Fund	-	381,603
Common Equity	-	116,428
Total	\$ 52,299	\$ 534,560

Interest Rate Risk

Investment Maturities (in years)			
Investment Type	Fair Value	1-5 Years	6-10 Years
Taxable Municipal Bonds	\$ 52,299	\$ 26,927	\$ 25,372
Total	\$ 52,299	\$ 26,927	\$ 25,372

NOTE 3—PROPERTY TAXES:

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5th. The County bills and collects its own property taxes.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 4—RECEIVABLES:

Receivables at June 30, 2011 consist of the following:

	<u>Primary Government General Fund</u>	<u>Component Unit School Fund</u>
Property taxes	\$ 1,137,623	\$ -
Utility taxes	15,829	-
Clerk of the circuit court	26,160	-
Meals taxes	43,731	-
Other	10,320	7,455
	<u>1,233,663</u>	<u>7,455</u>
Subtotal	\$ 1,233,663	\$ 7,455
Allowance for uncollectibles	(474,446)	-
Net accounts receivable	\$ 759,217	\$ 7,455
Notes receivable	336,974	-
	<u>1,096,191</u>	<u>7,455</u>
Total receivables	\$ 1,096,191	\$ 7,455
Reconciliation to Exhibit 1:		
Receivables, net		
Due within one year	\$ 786,452	\$ 7,455
Due in more than one year	309,739	-
	<u>1,096,191</u>	<u>7,455</u>
Total receivables	\$ 1,096,191	\$ 7,455

On March 9, 2005, the County entered into an agreement to sell property for \$520,000. The County received a promissory note for this sale. During the year ended June 30, 2010, the original buyer defaulted on the note and negotiated a settlement to sell the property with the County receiving a new promissory note. On September 1, 2010, the property was sold to Aileen of Rappahannock, LLC. The note under this sale accrues simple interest at 4.0% annually. Semi-annual repayment installments of principal and interest in the amount of \$23,525 commenced on March 1, 2011 and continue through first day of each successive September and March until September 1, 2015, at which time all outstanding principal and interest is due.

Annual requirements to amortize the note receivable and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 27,235	\$ 19,816
2012	28,894	18,157
2013	30,653	16,398
2014	32,520	14,531
2015	217,672	530
Total	\$ 336,974	\$ 69,432

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 5—DUE FROM OTHER GOVERNMENTAL UNITS:

	Governmental Activities	Component Unit
	General Fund	School Board
Rappahannock Water & Sewer Authority	\$ 26,379	\$ -
Commonwealth of Virginia:		
Local sales tax	78,746	159,697
Communications sales and use tax	55,029	-
Comprehensive services act	99,630	-
Public assistance	21,871	-
Shared expenses and grants	113,338	-
Other	20,584	-
Federal government:		
Public assistance	44,593	-
Law enforcement grants	5,495	-
Federal pass-through school funds	-	216,601
	<u>\$ 465,665</u>	<u>\$ 376,298</u>

NOTE 6—INTERFUND ACTIVITY:

Primary Government:

Transfers To/From Other Funds:

Transfer to the General Fund to support operations	\$ 72
Transfer to the Library Fund to support operations	115,908
	<u>\$ 115,980</u>

Component Unit - School Board:

Transfers To/From Other Funds:

Transfer to the School Cafeteria Fund for food service	\$ 44,129
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COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 7—CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2011.

Governmental Activities:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 1,706,773	\$ -	\$ -	\$ 1,706,773
Total capital assets not being depreciated	\$ 1,706,773	\$ -	\$ -	\$ 1,706,773
Other capital assets:				
Buildings and improvements	\$ 2,876,923	\$ 170,657	\$ -	\$ 3,047,580
School buildings, improvements and equipment *	4,195,000	-	(365,000)	3,830,000
Furniture, equipment and vehicles	1,858,956	116,306	(79,380)	1,895,882
Total other capital assets	\$ 8,930,879	\$ 286,963	\$ (444,380)	\$ 8,773,462
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 1,195,793	\$ 102,629	\$ -	\$ 1,298,422
School buildings, improvements and equipment *	618,848	76,375	(133,477)	561,746
Furniture, equipment and vehicles	732,763	149,896	(79,380)	803,279
Total accumulated depreciation	\$ 2,547,404	\$ 328,900	\$ (212,857)	\$ 2,663,447
Other capital assets, net	\$ 6,383,475	\$ (41,937)	\$ (231,523)	\$ 6,110,015
Net capital assets	\$ 8,090,248	\$ (41,937)	\$ (231,523)	\$ 7,816,788
Depreciation expense was allocated as follows:				
General government administration		\$ 54,031		
Judicial administration		1,250		
Public safety		128,656		
Public works		18,785		
Education		76,375		
Parks, recreation and cultural		49,803		
Total depreciation expense		\$ 328,900		

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Component Unit School Board:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Construction in progress	\$ 13,005	\$ 339,752	\$ (13,005)	\$ 339,752
Total capital assets not being depreciated	<u>\$ 13,005</u>	<u>\$ 339,752</u>	<u>\$ (13,005)</u>	<u>\$ 339,752</u>
Other capital assets:				
Buildings and improvements	\$ 12,106,839	\$ 88,631	\$ -	\$ 12,195,470
School buildings, improvements and equipment allocated to County *	(4,195,000)	-	365,000	(3,830,000)
Furniture, equipment and vehicles	<u>1,076,330</u>	<u>176,379</u>	<u>(41,290)</u>	<u>1,211,419</u>
Total other capital assets	<u>\$ 8,988,169</u>	<u>\$ 265,010</u>	<u>\$ 323,710</u>	<u>\$ 9,576,889</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 4,044,557	\$ 297,168	\$ -	\$ 4,341,725
School buildings, improvements and equipment allocated to County *	(618,848)	(76,375)	133,477	(561,746)
Furniture, equipment and vehicles	<u>827,048</u>	<u>70,149</u>	<u>(41,290)</u>	<u>855,907</u>
Total accumulated depreciation	<u>\$ 4,252,757</u>	<u>\$ 290,942</u>	<u>\$ 92,187</u>	<u>\$ 4,635,886</u>
Other capital assets, net	<u>\$ 4,735,412</u>	<u>\$ (25,932)</u>	<u>\$ 231,523</u>	<u>\$ 4,941,003</u>
Net capital assets	<u>\$ 4,748,417</u>	<u>\$ 313,820</u>	<u>\$ 218,518</u>	<u>\$ 5,280,755</u>
Depreciation expense allocated to education		<u>\$ 290,942</u>		

* School Board capital assets are jointly owned by the County (primary government) and the component unit School Board. The County share of the School Board capital assets is in proportion to the debt owed on such assets by the County. The County reports depreciation on these assets as an element of its share of the costs of the public school system.

Reconciliation of primary government net assets invested in capital assets, net of related debt:

Net capital assets	\$ 7,816,788
Long-term debt applicable to capital assets at June 30, 2011	<u>(4,206,736)</u>
Net assets invested in capital assets, less related debt	<u>\$ 3,610,052</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Component Unit Recreational Facilities Authority:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Other capital assets:				
Building and improvements	\$ 110,525	\$ -	\$ -	\$ 110,525
Equipment	4,017	-	-	4,017
Total other capital assets	\$ 114,542	\$ -	\$ -	\$ 114,542
Less: Accumulated depreciation for:				
Building and improvements	\$ 81,077	\$ 3,865	\$ -	\$ 84,942
Equipment	3,571	223	-	3,794
Total accumulated depreciation	\$ 84,648	\$ 4,088	\$ -	\$ 88,736
Other capital assets, net	\$ 29,894	\$ (4,088)	\$ -	\$ 25,806
Net capital assets	\$ 49,894	\$ (4,088)	\$ -	\$ 45,806

NOTE 8—LONG-TERM OBLIGATIONS:

General Fund revenues are used to pay all long-term general obligation debt, General Fund capital leases and compensated absences. School Fund revenues and appropriations from the General Fund are used to pay its compensated absences.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2011.

	Balance July 1, 2010	Additions	Retirements & Other Reductions	Balance June 30, 2011	Current Portion
General obligation bonds:					
School	\$ 4,195,000	\$ -	\$ (365,000)	\$ 3,830,000	\$ 355,000
Add: Unamortized bond premium	151,987	-	(20,189)	131,798	18,664
Capital leases	269,377	-	(24,439)	244,938	25,659
Total	<u>\$ 4,616,364</u>	<u>\$ -</u>	<u>\$ (409,628)</u>	<u>\$ 4,206,736</u>	<u>\$ 399,323</u>

Reconciliation to Exhibit 1:

Long-term liabilities due within one year:

Bonds and loans payable \$ 399,323

Long-term liabilities due in more than one year:

Bonds and loans payable 3,807,413

Total \$ 4,206,736

Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 355,000	\$ 178,129
2013	345,000	161,044
2014	345,000	144,209
2015	335,000	127,249
2016	335,000	110,164
2017-2021	1,375,000	310,769
2022-2025	<u>740,000</u>	<u>67,733</u>
Total	<u>\$ 3,830,000</u>	<u>\$ 1,099,297</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Indebtedness:

	<u>Amount Outstanding</u>	<u>Amount Due in One Year</u>
<u>General Obligation School Bonds:</u>		
\$3,720,000, Series 2004, issued November 10, 2004, Virginia Public School Authority Bonds, due in annual installments ranging from \$185,000 to \$190,000 through July 2025, interest rates ranging from 4.10% to 5.60%	\$ 2,590,000	\$ 185,000
\$3,000,000, Series 1998B, issued November 19, 1998, Virginia Public School Authority Bonds, due in annual installments of \$150,000 through July, 2019, interest at rates from 3.60% to 5.10%	1,200,000	150,000
\$1,500,000, Series 1993C, issued November 18, 1993, Virginia Public School Authority Bonds, due in annual installments from \$10,000 to \$105,000 through June 15, 2014, plus interest at 4.475% to 5.0%	40,000	20,000
Unamortized bond premium	<u>131,798</u>	<u>18,664</u>
Total general obligation school bonds	\$ 3,961,798	\$ 373,664
Capital lease	\$ <u>244,938</u>	\$ <u>25,659</u>
Total long-term debt	\$ <u><u>4,206,736</u></u>	\$ <u><u>399,323</u></u>

Capital Leases

The County has entered into a lease agreement for the purchase of outdoor ballfield lighting. The lease agreement qualifies as a capital lease for accounting purposes, and therefore has been recorded at the present value of its future minimum lease payments as of the inception date.

The carrying value of the asset acquired through the capital lease is as follows:

Outdoor ballfield lighting	\$ 410,813
Less accumulated depreciation	<u>(51,352)</u>
Total	\$ <u><u>359,461</u></u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Capital Leases: (Continued)

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2012	\$ 37,883
2013	37,883
2014	37,883
2015	37,883
2016	37,883
2017-2019	<u>113,649</u>
Total minimum lease payments	\$ 303,064
Less: amounts representing interest	<u>(58,126)</u>
Present value of minimum lease payments	<u><u>\$ 244,938</u></u>

Federal Arbitrage Regulations:

The County is in compliance with federal arbitrage regulations. Any arbitrage amounts that may be required to be paid are not material to the financial statements.

NOTE 9—CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the County and its component unit School Board have accrued the liability arising from all outstanding claims, judgments and compensated absences. The liability for future vacation and sick leave benefits is accrued when such benefits meet the following conditions:

The County's policy is to pay accrued vacation and compensatory time upon termination. In general, any compensatory and vacation time earned is limited to a maximum of 30 days. School Board and Social Services employees are also paid accrued vacation upon termination, although the amount able to be earned is not capped. Social Services employees are also paid unused sick leave upon termination; such pay is limited to the lesser of 25% of the unused balance or \$2,500.

Because the timing of the settlement of the liability for compensated absences is not estimable, the amount of vacation and sick pay not currently payable by the governmental funds is recorded as a current liability in the government-wide financial statements.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 9—CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES: (CONTINUED)

The balances at June 30, 2011 are:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Primary Government:			
Governmental activities	\$ 219,790	\$ (18,928)	\$ 200,862
Component Unit School Board	\$ 83,566	\$ 18,288	\$ 101,854

NOTE 10—DEFINED BENEFIT PENSION PLAN:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

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

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their 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 and School Board's non-professional employee contribution rates for the fiscal year ended 2011 were 9.50% and 7.33% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$202,956, \$384,271, and \$465,578, to the teacher cost-sharing pool for the fiscal years ended June 30, 2011, 2010, and 2009, respectively and these contributions represented 3.93%, 8.81%, and 8.81%, respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal year 2011, the County's annual pension cost of \$242,667 (does not include the employee share assumed by the County which was \$127,725) was equal to the County's required and actual contributions.

For fiscal year 2011, the School Board's annual pension cost for non-professional employees of \$40,778 (does not include the employee share assumed by the School Board which was \$27,816) was equal to the School Board's required and actual contributions.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

C. Annual Pension Cost: (Continued)

Three-Year Trend Information for the County and the School Board				
	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
County	June 30, 2009	\$ 231,208	100%	\$ -
	June 30, 2010	227,994	100%	-
	June 30, 2011	242,677	100%	-
School Board Non-Professional Employees	June 30, 2009	\$ 37,304	100%	\$ -
	June 30, 2010	34,760	100%	-
	June 30, 2011	40,778	100%	-

¹Employer portion only

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the County's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the County's plan was 79.21% funded. The actuarial accrued liability for benefits was \$10,354,497, and the actuarial value of assets was \$8,201,312, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,153,185. The covered payroll (annual payroll of active employees covered by the plan) was \$2,591,332, and ratio of the UAAL to the covered payroll was 83.09%.

As of June 30, 2010, the most recent actuarial valuation date, the School Board's plan was 84.03% funded. The actuarial accrued liability for benefits was \$2,348,221, and the actuarial value of assets was \$1,973,312, resulting in an unfunded actuarial accrued liability (UAAL) of \$374,909. The covered payroll (annual payroll of active employees covered by the plan) was \$552,959, and ratio of the UAAL to the covered payroll was 67.80%.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

D. Funded Status and Funding Progress: (Continued)

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 11—DEFERRED REVENUE:

	<u>Government-wide Statements</u>	<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Primary Government:		
Deferred property tax revenue:		
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ -	\$ 600,393
Deferred revenue representing notes receivable for which asset recognition criteria has not been met. The note receivable is not available for the funding of current expenditures.	-	336,974
Prepaid property taxes have been recorded as deferred revenue. Prepaid taxes collected are available for the funding of current expenditures.	<u>10,497</u>	<u>10,497</u>
Total primary government	\$ <u><u>10,497</u></u>	\$ <u><u>947,864</u></u>

The component unit School Board had no deferred revenue.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 12—COMMITMENTS AND CONTINGENCIES:

Primary Government and Component Unit School Board:

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

Lease Commitments:

The County leases office space from various lessors. The future minimum amounts due for operating leases with terms exceeding one year are as follows:

	<u>Fiscal Year</u>	
2012	\$	31,530
2013		30,000
2014		30,000
2015		30,000
2016		30,000
2017		<u>5,000</u>
Total	\$	<u><u>156,530</u></u>

Rent expenditures totaled \$77,583 for fiscal year 2011.

NOTE 13—LITIGATION:

At June 30, 2011, there are matters of litigation pending against the County. Counsel is of the opinion that no claim for damages will be awarded.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 14—SURETY BONDS:

Virginia Department of Risk Management & Surety	
Margaret R. Ralph, Clerk of the Circuit Court	\$ 365,000
Frances A. Foster, Treasurer	300,000
Beverly S. Atkins, Commissioner of the Revenue	3,000
Connie Smith, Sheriff	30,000
Above constitutional officers' employees - blanket bond	50,000
Melbry Paratore, Clerk of the School Board	10,000
Aldridge Boone, Superintendent	10,000
United States Fidelity and Guaranty Company - Surety	
All Department of Social Services Employees - blanket bond	100,000
Peter H. Luke - Surety	
S. Bryant Lee, Supervisor	1,000
Geneva C. Welsh - Surety	
Roger A. Welch	1,000
Cathy W. Frazier - Surety	
Ronald L. Frazier, Supervisor	1,000
Susan Hoffman - Surety	
Mike Biniek, Supervisor	1,000
Caroline Parrish, Surety	
Chris Parrish, Supervisor	1,000

NOTE 15—RISK MANAGEMENT:

The primary government and its component units are exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims and natural disasters.

The County contracts with the Virginia Association of Counties Municipal Liability Pool to provide for insurance coverages for these risks of loss. In the event of 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 property coverage is for specific amounts based on values assigned to the insured properties. Liability coverage is for \$3,000,000.

The School Board contracts with private insurers for property and liability coverages. Property coverages are for specific property values and liability coverages are \$20,000,000 and \$2,000,000, respectively.

Unemployment Insurance:

The County and School Board are responsible for unemployment claims. The Virginia Employment Commission bills the County for all unemployment claims.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 15—RISK MANAGEMENT: (CONTINUED)

Employee Health Insurance:

The County and School Board have contracted with a private carrier for health insurance coverages.

Other:

The County and its component units have had no reductions in insurance coverages from the prior year. There have been no settlements in excess of insurance coverages for the past three years, other than the payment of deductibles which are immaterial.

NOTE 16—ACCRUED LANDFILL REMEDIATION COST:

State and federal laws and regulations require the County 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 the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,180,103 reported as landfill closure and postclosure care liability at June 30, 2011, represents the cumulative amount reported based on the use of 100% of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The landfill was closed in December 2007.

The County has demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

The County has entered into a Solid Waste Service Agreement with the County of Culpeper ("Culpeper") that permits the County to use Culpeper's transfer station for refuse disposal at an established rate per ton. In fiscal year 2008, the County paid a one-time fee of \$62,215 to Culpeper as consideration for entering into the contract.

NOTE 17—INTERGOVERNMENTAL AGREEMENTS:

In July 2007, the County entered into a Solid Waste Service Agreement with the County of Culpeper ("Culpeper") that permits the County to use Culpeper's transfer station for refuse disposal at an established rate per ton. In fiscal year 2010, the County paid Culpeper \$293,232 in connection with the agreement.

In November 2008, the County entered into a Shared Use of Public-Safety System Facilities Agreement with Culpeper so that the County can share the use of public safety radio equipment and infrastructure located in Culpeper. As part of the agreement, the County was required to purchase certain equipment and modify the existing communication tower. In addition, the agreement stipulates that the County will annually reimburse Culpeper for 7% of costs for maintenance of the system.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 17—INTERGOVERNMENTAL AGREEMENTS: (CONTINUED)

In March 2009, the County entered into an Agreement for Shared Use of Public Safety Radio System with the County of Fauquier ("Fauquier"). The agreement permits the County to utilize Fauquier's 800 MHz radio system network, which is interconnected with similar facilities in Culpeper. The term of the agreement is five years with a renewal option for an additional five years. Under the terms of the agreement, the County is required to pay a stipulated fee for each radio owned by the County and connected to Fauquier's radio network.

NOTE 18—RELATED PARTY TRANSACTIONS:

The County pays the payroll for the Water and Sewer Authority, which then reimburses the County for the costs. The County recorded \$59,844 of such reimbursements in fiscal year 2011.

NOTE 19—DEFERRED COMPENSATION PLAN:

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan assets are not subject to claims from the County's general creditors.

NOTE 20—OTHER POST EMPLOYMENT BENEFITS PROGRAM:

Discretely Presented Component Unit-School Board:

Plan Description

The plan provides 50% of the single subscriber premium for employees who retire with either (1) unreduced retirement benefit from the Virginia Retirement System (VRS), or (2) the sum of years of service plus age equals 90 or more.

The eligibility requirements for an unreduced retirement benefit from VRS are:

- (a) Age 65 with 5 years of service, or
- (b) Age 50 with 30 years of service.

Employees who are eligible for disability retirement under VRS are also eligible for the RCPS retiree medical plan. There is no post age 65 coverage except through COBRA. Spouses and family members are allowed in the plan until they reach age 65 but the retiree must pay the full cost of the additional coverage.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 20—OTHER POST EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

Discretely Presented Component Unit-School Board: (Continued)

Funding Policy

These benefits are financed on a pay-as-you-go basis.

An actuarial valuation was performed as of July 1, 2010 to determine Net OPEB obligation. The plan is not funded. The valuation used the projected unit cost method, with linear pro-ratio to assumed benefit commencement.

Annual OPEB Cost and Net OPEB Obligation

The Rappahannock County Public School's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Rappahannock County Public School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Rappahannock County Public School's net OPEB obligation.

Annual required contribution (ARC)	\$	121,000
Interest on OPEB obligation		3,000
Adjustment to ARC		(3,000)
Annual OPEB cost		<u>121,000</u>
Contributions made		<u>(41,000)</u>
Increase (decrease) in net OPEB obligation		80,000
Net OPEB obligation - beginning of year		<u>81,000</u>
Net OPEB obligation - end of year	\$	<u><u>161,000</u></u>

The Rappahannock County Public School's (RCPS) annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2011 and 2010 was as follows

<u>Fiscal Year Ended</u>		<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>		<u>Net Pension Obligation</u>
June 30, 2011	\$	121,000	34%	\$	161,000
June 30, 2010		113,000	28%		81,000

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 20—OTHER POST EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

Discretely Presented Component Unit-School Board: (Continued)

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The unfunded actuarial accrued liability (UAAL) in \$1,079,000. The covered payroll (annual payroll of active employees covered by the plan) was \$552,959 and the ratio of the UAAL to the covered payroll was 195.13 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment return on the employer's own investments. We also assumed an annual healthcare cost trend rate of 8.5% initially, gradually decreasing over time. By 2030 the rate of increase is 6.5%, and by 2050, 5.8%. The ultimate trend rate is 5.2%. The rates include a 3.2% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

NOTE 21—HEALTH INSURANCE CREDIT PROGRAM:

Plan Description

The County and Component Unit School Board participate in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the County and Component Unit School Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 21—HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

Plan Description: (Continued)

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as are previously discussed in Note 10.

Funding Policy

As a participating local political subdivision, the County and Component Unit School Board are required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The County and Component Unit School Board non-professional employees contribution rates for the fiscal year ended 2011 were .05% and .81% of annual covered payroll, respectively.

OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the annual required contribution (ARC). The County and Component Unit School Board are required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2011, the County and Component Unit School Board non-professional employee's contributions of \$1,277 and \$4,506, respectively, were equal to the ARC and OPEB cost. The County and the Component Unit School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)¹</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County	June 30, 2009	\$ 1,557	100%	\$ -
	June 30, 2010	1,535	100%	-
	June 30, 2011	1,277	100%	-
School Board Non Professional Employees	June 30, 2009	\$ 7,120	100%	\$ -
	June 30, 2010	6,634	100%	-
	June 30, 2011	4,506	100%	-

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 21—HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2010, the most recent actuarial valuation date, is as follows:

	<u>County</u>	<u>School Board Non Professional Employees</u>
Actuarial accrued liability (AAL)	\$ 19,978	\$ 82,378
Actuarial value of plan assets	\$ 20,667	\$ 29,728
Unfunded actuarial accrued liability (UAAL)	\$ (689)	\$ 52,650
Funded ratio (actuarial value of plan assets/AAL)	103.45%	36.09%
Covered payroll (active plan members)	\$ 2,591,332	\$ 552,959
UAAL as a percentage of covered payroll	-0.03%	9.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2010 was 27 years.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2011 (Continued)

NOTE 21-HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

Professional Employees - Discretely Presented Component Unit School Board

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

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2011, 2010, and 2009 were \$30,987, \$56,615, and \$57,075, respectively and equaled the required contributions for each year.

NOTE 22-FUND BALANCE/NET ASSET ADJUSTMENTS:

Fund balance and net assets were restated as of July 1, 2010 as follows:

	<u>General Fund Balance</u>	<u>Governmental Activities Net Assets</u>
June 30, 2010, as reported	\$ 5,670,171	\$ 8,360,361
Adjustment for accounts payable incorrectly excluded from expenses/expenditures during the year ended June 30, 2010	<u>(75,339)</u>	<u>(75,339)</u>
July 1, 2010, as restated	<u>\$ 5,594,832</u>	<u>\$ 8,285,022</u>

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Required Supplementary Information

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Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Property taxes:				
Real property taxes	\$ 9,456,500	\$ 9,456,500	\$ 8,749,241	\$ (707,259)
Real and personal public service corporation property taxes	142,000	142,000	131,051	(10,949)
Personal property taxes	1,556,000	1,556,000	1,545,882	(10,118)
Mobile home taxes	400	400	683	283
Penalties	88,750	88,750	95,560	6,810
Interest	52,000	52,000	126,576	74,576
Total property taxes	\$ 11,295,650	\$ 11,295,650	\$ 10,648,993	\$ (646,657)
Other local taxes:				
Local sales and use taxes	\$ 425,500	\$ 425,500	\$ 450,218	\$ 24,718
Consumers' utility taxes	185,600	185,600	150,586	(35,014)
Gross receipts tax	34,700	34,700	35,310	610
Motor vehicle licenses	174,000	174,000	150,291	(23,709)
Cable TV franchise fees	17,600	17,600	-	(17,600)
Bank franchise taxes	50,520	50,520	61,498	10,978
Taxes on recordation of wills	121,500	121,500	101,011	(20,489)
Additional tax on deeds	25,600	25,600	25,658	58
Meals and lodging taxes	156,000	156,000	151,890	(4,110)
E-911 telephone tax	-	-	37,855	37,855
Total other local taxes	\$ 1,191,020	\$ 1,191,020	\$ 1,164,317	\$ (26,703)
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 7,800	\$ 7,800	\$ 6,687	\$ (1,113)
Land use application fees	2,800	2,800	4,401	1,601
Building and related permits	85,000	85,000	60,023	(24,977)
Transfer fees	250	250	308	58
Other permits and fees	500	500	15,835	15,335
Total permits, privilege fees and regulatory licenses	\$ 96,350	\$ 96,350	\$ 87,254	\$ (9,096)
Fines and forfeitures:				
Court fines and forfeitures	\$ 95,000	\$ 95,000	\$ 81,982	\$ (13,018)
Revenue from use of money and property:				
Revenue from use of money	\$ 122,500	\$ 122,500	\$ 26,387	\$ (96,113)
Revenue from use of property	17,900	17,900	8,501	(9,399)
Total revenue from use of money and property	\$ 140,400	\$ 140,400	\$ 34,888	\$ (105,512)

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Charges for services:				
Sheriff fees	\$ 14,700	\$ 14,700	\$ 9,677	\$ (5,023)
Charges for Commonwealth's Attorney	250	250	233	(17)
Charges for concealed weapons fees	3,000	3,000	3,254	254
Charges for jail meals	-	-	1,345	1,345
Charges for law library	750	750	1,217	467
Charges for work release fees	-	-	54,611	54,611
Charges for courthouse security fees	38,000	38,000	30,739	(7,261)
Charges for courthouse maintenance fees	8,500	8,500	6,437	(2,063)
Charges for court appointed attorney fees	-	-	396	396
Other jail charges	-	-	2,268	2,268
DMV stop fees	-	-	3,380	3,380
Charges for inmate telephone system	10,000	10,000	971	(9,029)
Charges for landfill fees	25,000	25,000	19,273	(5,727)
Total charges for services	\$ 100,200	\$ 100,200	\$ 133,801	\$ 33,601
Miscellaneous:				
VPA refunds	\$ -	\$ -	\$ 6,919	\$ 6,919
Miscellaneous	152,946	152,946	259,131	106,185
Total miscellaneous	\$ 152,946	\$ 152,946	\$ 266,050	\$ 113,104
Recovered costs:				
Commonwealth jail costs	\$ 52,500	\$ 52,500	\$ 46,379	\$ (6,121)
Cobra Insurance	-	-	373	373
Water and sewer authority	86,000	86,000	59,844	(26,156)
Total recovered costs	\$ 138,500	\$ 138,500	\$ 106,596	\$ (31,904)
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 250	\$ 250	\$ 210	\$ (40)
Spay/Neuter License Revenue	-	-	175	175
Rolling stock tax	1,100	1,100	73	(1,027)
Communications sales and use tax	372,000	372,000	361,357	(10,643)
Reduction in aid to localities	(80,808)	(80,808)	(80,808)	-
Personal property tax relief	900,000	900,000	945,168	45,168
Total noncategorical aid	\$ 1,192,542	\$ 1,192,542	\$ 1,226,175	\$ 33,633

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Revenue from the Commonwealth (continued):				
Categorical aid:				
Shared Expenses:				
Commonwealth's attorney	\$ 147,348	\$ 147,348	\$ 153,765	\$ 6,417
Sheriff	771,200	771,200	734,747	(36,453)
Commissioner of the Revenue	66,764	66,764	68,477	1,713
Treasurer	62,788	62,788	64,435	1,647
Registrar/electoral board	33,100	33,100	28,865	(4,235)
Clerk of the Circuit Court	148,232	148,232	166,600	18,368
Total shared expenses	\$ 1,229,432	\$ 1,229,432	\$ 1,216,889	\$ (12,543)
Welfare:				
Welfare administration and assistance	\$ 154,000	\$ 154,000	\$ 198,357	\$ 44,357
Other categorical aid:				
Abandoned vehicles	\$ 1,600	\$ 1,600	\$ 2,504	\$ 904
Emergency medical service	8,250	8,250	9,090	840
Wireless grant	152,838	152,838	829	(152,009)
Litter control	4,350	4,350	6,438	2,088
Juvenile Comm. Crime Control	9,613	9,613	9,613	-
Local law enforcement block grant	350	350	-	(350)
Farmland preservation program	43,000	43,000	49,900	6,900
Recordation taxes	42,000	42,000	43,106	1,106
At-risk grant	223,000	223,000	436,525	213,525
Fire programs	42,000	42,000	19,634	(22,366)
Water quality improvement grant	-	-	22,173	22,173
Clean streams program	60,000	60,000	-	(60,000)
DMV - Animal friendly plates	-	-	229	229
Total other categorical aid	\$ 587,001	\$ 587,001	\$ 600,041	\$ 13,040
Total categorical aid	\$ 1,970,433	\$ 1,970,433	\$ 2,015,287	\$ 44,854
Total revenue from the Commonwealth	\$ 3,162,975	\$ 3,162,975	\$ 3,241,462	\$ 78,487
Revenue from the Federal Government:				
Payments in lieu of taxes	\$ 71,500	\$ 71,500	\$ 76,782	\$ 5,282
Categorical aid:				
Welfare:				
Administration and public assistance	\$ 503,500	\$ 503,500	\$ 465,630	\$ (37,870)

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Revenue from the Federal Government (continued):				
Other categorical aid:				
Law enforcement grants	\$ 12,200	\$ 12,200	\$ 15,772	\$ 3,572
Drug forfeitures	4,000	4,000	-	(4,000)
Total other categorical aid	\$ 16,200	\$ 16,200	\$ 15,772	\$ (428)
Total categorical aid	\$ 519,700	\$ 519,700	\$ 481,402	\$ (38,298)
Total revenue from the Federal Government	\$ 591,200	\$ 591,200	\$ 558,184	\$ (33,016)
Total revenues	\$ 16,964,241	\$ 16,964,241	\$ 16,323,527	\$ (640,714)
Expenditures				
Current:				
General government administration:				
Board of supervisors	\$ 177,415	\$ 201,901	\$ 155,419	\$ 46,482
County administrator	254,085	256,243	264,014	(7,771)
Legal services	76,228	76,228	68,731	7,497
Independent auditor	41,000	41,000	18,427	22,573
Commissioner of the Revenue	224,268	224,268	233,852	(9,584)
Board of assessors	5,150	5,150	2,852	2,298
Treasurer	241,693	241,693	235,235	6,458
Land use administration	14,650	14,650	8,874	5,776
Electoral board and officials	33,800	33,800	19,075	14,725
Registrar	103,545	103,545	89,095	14,450
Total general government administration	\$ 1,171,834	\$ 1,198,478	\$ 1,095,574	\$ 102,904
Judicial administration:				
Circuit court	\$ 12,150	\$ 12,150	\$ 10,371	\$ 1,779
General district court	9,290	9,290	3,707	5,583
Commissioner of accounts	1,345	1,345	1,080	265
Magistrates	-	-	997	(997)
Juvenile probation service unit	50,013	50,013	48,467	1,546
Clerk of the circuit court	296,734	296,734	245,519	51,215
Law library	600	600	-	600
Commonwealth attorney	226,294	226,294	220,918	5,376
Total judicial administration	\$ 596,426	\$ 596,426	\$ 531,059	\$ 65,367

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Continued):				
Public safety:				
Sheriff	\$ 892,820	\$ 922,820	\$ 940,054	\$ (17,234)
Contributions to fire departments and rescue squads	649,600	649,600	624,845	24,755
Forest fire extinction	5,643	5,643	8,611	(2,968)
Jail	1,106,319	1,106,319	863,338	242,981
Building inspector	110,354	110,354	115,277	(4,923)
Animal control	176,858	176,858	175,860	998
Medical examiner	850	850	100	750
Emergency services	142,868	142,868	140,495	2,373
E-911	208,891	208,891	110,296	98,595
Total public safety	\$ 3,294,203	\$ 3,324,203	\$ 2,978,876	\$ 345,327
Public works:				
Landfill	\$ 852,909	\$ 832,909	\$ 635,009	\$ 197,900
General properties	468,362	488,362	498,594	(10,232)
Aileen property	10,350	14,350	2,622	11,728
Total public works	\$ 1,331,621	\$ 1,335,621	\$ 1,136,225	\$ 199,396
Health and welfare:				
Health department	\$ 137,970	\$ 137,970	\$ 122,420	\$ 15,550
Rappahannock-Rapidan Community Services Board	37,794	37,794	37,794	-
Public assistance and administration	796,399	796,399	1,030,172	(233,773)
Comprehensive Services Act	505,000	505,000	662,867	(157,867)
Total health and welfare	\$ 1,477,163	\$ 1,477,163	\$ 1,853,253	\$ (376,090)
Education:				
Community college	\$ 5,945	\$ 5,945	\$ 5,945	\$ -
Appropriation to public school system	8,299,791	8,299,791	8,029,943	269,848
Total education	\$ 8,305,736	\$ 8,305,736	\$ 8,035,888	\$ 269,848
Parks, recreation and cultural:				
Park authority and others	\$ 18,000	\$ 18,000	\$ 9,500	\$ 8,500
Total parks, recreation and cultural	\$ 18,000	\$ 18,000	\$ 9,500	\$ 8,500

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Continued):				
Community development:				
Planning commission	\$ 37,495	\$ 37,495	\$ 10,719	\$ 26,776
Board of zoning appeals	5,550	5,550	2,138	3,412
Soil and water conservation district	13,915	13,915	13,144	771
VPI Extension Service	88,343	88,343	79,183	9,160
Public utility services	86,000	86,000	62,408	23,592
Farmland preservation program	93,000	103,000	113,004	(10,004)
Water quality improvement program	1	37,173	28,853	8,320
Civil War Trails project	4,500	4,500	417	4,083
Tourism promotion	68,050	68,050	68,548	(498)
Total community development	\$ 396,854	\$ 444,026	\$ 378,414	\$ 65,612
Capital projects:				
Scrabble School project	\$ 20,200	\$ 20,200	\$ 11,507	\$ 8,693
School & Facility renovation	660,248	660,248	8,482	651,766
	\$ 680,448	\$ 680,448	\$ 19,989	\$ 660,459
Debt service:				
Principal	\$ 389,439	\$ 389,439	\$ 389,439	\$ -
Interest and fiscal charges	209,620	209,620	209,620	-
Total debt service	\$ 599,059	\$ 599,059	\$ 599,059	\$ -
Total expenditures	\$ 17,871,344	\$ 17,979,160	\$ 16,637,837	\$ 1,341,323
Excess (deficiency) of revenues over expenditures	\$ (907,103)	\$ (1,014,919)	\$ (314,310)	\$ 700,609
Other financing sources (uses):				
Transfers in	\$ -	\$ -	\$ 72	\$ (72)
Transfers out	(115,908)	(115,908)	(115,908)	-
Insurance recoveries	-	-	5,295	(5,295)
Total other financing sources (uses)	\$ (115,908)	\$ (115,908)	\$ (110,541)	\$ (5,367)
Net change in fund balance	\$ (1,023,011)	\$ (1,130,827)	\$ (424,851)	\$ 695,242
Fund balance, beginning of year - as restated	1,023,011	1,130,827	5,594,832	4,464,005
Fund balance, end of year	\$ -	\$ -	\$ 5,169,981	\$ 5,169,981

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Budgetary Comparison Schedule

Library Fund

Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Fines and forfeitures	\$ 2,500	\$ 2,500	\$ -	\$ (2,500)
Use of money and property	35,226	35,226	108,633	73,407
Charges for services	3,770	3,770	2,217	(1,553)
Miscellaneous	1,500	1,500	4,448	2,948
Intergovernmental:				
Revenue from the Commonwealth	30,000	30,000	33,651	3,651
Total revenues	\$ 72,996	\$ 72,996	\$ 148,949	\$ 75,953
Expenditures:				
Parks, Recreation and Cultural:				
Library administration	\$ 188,904	\$ 188,904	\$ 187,118	\$ 1,786
Total expenditures	\$ 188,904	\$ 188,904	\$ 187,118	\$ 1,786
Excess (deficiency) of revenues over expenditures	\$ (115,908)	\$ (115,908)	\$ (38,169)	\$ 74,167
Other financing sources (uses):				
Transfers in	\$ 115,908	\$ 115,908	\$ 115,908	\$ -
Net change in fund balance	\$ -	\$ -	\$ 77,739	\$ 74,167
Fund balance, beginning of year	-	-	553,020	553,020
Fund balance, end of year	\$ -	\$ -	\$ 630,759	\$ 630,759

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Schedule of Pension Funding Progress
As of June 30, 2011

PRIMARY GOVERNMENT:

County Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
County:						
June 30, 2008	\$ 7,746,303	\$ 8,421,188	\$ 674,885	91.99%	\$ 2,546,810	26.50%
June 30, 2009	8,196,660	9,308,064	1,111,404	88.06%	2,601,412	42.72%
June 30, 2010	8,201,312	10,354,497	2,153,185	79.21%	2,591,332	83.09%

DISCRETELY PRESENTED COMPONENT UNIT:

School Board Non-Professional Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 2008	\$ 2,032,115	\$ 2,128,959	\$ 96,844	95.45%	\$ 620,701	15.60%
June 30, 2009	2,012,281	2,183,314	171,033	92.17%	570,905	29.96%
June 30, 2010	1,973,312	2,348,221	374,909	84.03%	552,959	67.80%

Schedule of OPEB Funding Progress
As of June 30, 2011

PRIMARY GOVERNMENT:**County Health Insurance Credit Program**

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
County:						
September 30, 2008	\$ 23,446	\$ 22,685	\$ (761)	103.35%	\$ 2,546,810	-0.03%
September 30, 2009	18,115	21,830	3,715	82.98%	2,601,412	0.14%
September 30, 2010	20,667	19,978	(689)	103.45%	2,591,332	-0.03%

DISCRETELY PRESENTED COMPONENT UNIT:**School Board OPEB Plan**

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2009	\$ -	\$ 998,000	\$ 998,000	0.00%	\$ 570,905	174.81%
July 1, 2010	-	1,079,000	1,079,000	0.00%	552,959	195.13%

School Board Health Insurance Credit Program

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
September 30, 2008	\$ 30,641	\$ 81,596	\$ 50,955	37.55%	\$ 620,701	8.21%
September 30, 2009	25,205	77,376	52,171	32.57%	570,905	9.14%
September 30, 2010	29,728	82,378	52,650	36.09%	552,959	9.52%

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Other Supplementary Information

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Agency Fund
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2011

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Special Welfare Fund				
Assets				
Cash and cash equivalents	\$ 20,000	\$ 6,319	\$ 3,310	\$ 23,009
Liabilities				
Amounts held for others	\$ 20,000	\$ 6,319	\$ 3,310	\$ 23,009

Component Unit School Board
Combining Balance Sheet
At June 30, 2011

	School Operating Fund	School Cafeteria Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,107,311	\$ 45,535	\$ 1,152,846
Accounts receivable	7,455	-	7,455
Prepays	111,361	-	111,361
Inventory	-	13,833	13,833
Due from other governments	376,298	-	376,298
Total assets	<u>\$ 1,602,425</u>	<u>\$ 59,368</u>	<u>\$ 1,661,793</u>
Liabilities:			
Accounts payable	\$ 26,729	\$ 25,535	\$ 52,264
Accrued liabilities	1,107,262	-	1,107,262
Due to primary government	468,434	-	468,434
Total liabilities	<u>\$ 1,602,425</u>	<u>\$ 25,535</u>	<u>\$ 1,627,960</u>
Fund Balance:			
Nonspendable:			
Inventory	\$ -	\$ 13,833	\$ 13,833
Assigned for:			
School food operations	-	20,000	20,000
Total fund balance	<u>\$ -</u>	<u>\$ 33,833</u>	<u>\$ 33,833</u>
Total liabilities and fund balance	<u>\$ 1,602,425</u>	<u>\$ 59,368</u>	<u>\$ 1,661,793</u>

Component Unit School Board

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

At June 30, 2011

Total fund balances for governmental funds (Exhibit 13)	\$	33,833
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Construction in progress	\$	339,752	
Buildings and improvements, net of depreciation		7,853,745	
Furniture, equipment and vehicles, net of depreciation		355,512	
School Board capital assets in primary government, net of depreciation		<u>(3,268,254)</u>	
 Total capital assets			 5,280,755

Liabilities applicable to the School Board's governmental activities which are not due and/or payable in the current period are not reported as fund liabilities. Balances of such liabilities affecting net assets are as follows:

Compensated absences	\$	(101,854)	
Other post employment benefits		<u>(161,000)</u>	
 Total			 <u>(262,854)</u>

Total net assets of governmental activities (Exhibit 1)	\$	<u><u>5,051,734</u></u>
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Component Unit School Board
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	School Operating Fund	School Cafeteria Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Charges for services	\$ 49,929	\$ 206,725	\$ 256,654
Miscellaneous	58,380	14,051	72,431
Intergovernmental:			
Appropriation from primary government	8,029,943	-	8,029,943
Revenue from the Commonwealth	2,451,366	9,415	2,460,781
Revenue from the Federal Government	687,035	166,217	853,252
	<u> </u>	<u> </u>	<u> </u>
Total revenues	\$ 11,276,653	\$ 396,408	\$ 11,673,061
	<u> </u>	<u> </u>	<u> </u>
Expenditures:			
Current:			
Education:			
Instruction	\$ 8,157,711	\$ -	\$ 8,157,711
Administration, attendance and health	780,654	-	780,654
Transportation	928,277	-	928,277
Facilities operations	1,345,677	-	1,345,677
School food services	20,205	425,028	445,233
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	\$ 11,232,524	\$ 425,028	\$ 11,657,552
	<u> </u>	<u> </u>	<u> </u>
Excess (deficiency) of revenues over expenditures	\$ 44,129	\$ (28,620)	\$ 15,509
	<u> </u>	<u> </u>	<u> </u>
Other financing sources (uses):			
Transfers in	\$ -	\$ 44,129	\$ 44,129
Transfers out	(44,129)	-	(44,129)
	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	\$ (44,129)	\$ 44,129	\$ -
	<u> </u>	<u> </u>	<u> </u>
Net change in fund balance	\$ -	\$ 15,509	\$ 15,509
Fund balance, beginning of year	-	18,324	18,324
	<u> </u>	<u> </u>	<u> </u>
Fund balance, end of year	\$ -	\$ 33,833	\$ 33,833
	<u> </u>	<u> </u>	<u> </u>

Component Unit School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit 15) \$ 15,509

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. 224,440

School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship increased the transfers to the School Board. 307,898

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment consists of the following:

Compensated absences	\$ (18,288)	
Other post employment benefits	<u>(80,000)</u>	
Total		<u>(98,288)</u>
Change in net assets of governmental activities (Exhibit 2)	\$	<u><u>449,559</u></u>

Component Unit School Board
School Fund
Budgetary Comparison Schedule
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 49,456	\$ 49,456	\$ 49,929	\$ 473
Miscellaneous	33,916	112,953	58,380	(54,573)
Recovered costs	-	-	-	-
Intergovernmental:				
Appropriation from primary government	8,137,674	8,171,342	8,029,943	(141,399)
Revenue from the Commonwealth	2,472,801	2,476,801	2,451,366	(25,435)
Revenue from the Federal Government	526,895	1,227,126	687,035	(540,091)
Total revenues	<u>\$ 11,220,742</u>	<u>\$ 12,037,678</u>	<u>\$ 11,276,653</u>	<u>\$ (761,025)</u>
Expenditures:				
Current:				
Education:				
Instruction	\$ 8,045,730	\$ 8,679,244	\$ 8,157,711	\$ 521,533
Administration, attendance and health	750,210	782,459	780,654	1,805
Transportation	881,508	881,508	928,277	(46,769)
Facilities operations	1,409,060	1,560,233	1,345,677	214,556
School food services	134,234	134,234	20,205	114,029
Total expenditures	<u>\$ 11,220,742</u>	<u>\$ 12,037,678</u>	<u>\$ 11,232,524</u>	<u>\$ 805,154</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,129</u>	<u>\$ 44,129</u>
Other financing sources(uses):				
Transfers out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (44,129)</u>	<u>\$ (44,129)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Statistical Tables

COUNTY OF RAPPAHANNOCK, VIRGINIA

Government-Wide Expenses by Function
Last Ten Fiscal Years (1)

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare
2003	\$ 753,529	\$ 302,855	\$ 1,778,431	\$ 566,439	\$ 1,243,316
2004	792,313	441,430	2,137,551	622,632	1,158,147
2005	780,315	541,437	2,505,482	982,749	1,273,404
2006	900,224	521,553	1,852,294	1,315,134	1,445,417
2007	1,830,994	511,111	2,871,045	909,018	1,573,437
2008	1,046,992	591,957	2,836,270	1,470,899	1,825,423
2009	1,033,528	613,997	3,020,094	995,784	1,742,545
2010	1,210,317	547,850	2,946,938	1,036,017	1,784,898
2011	1,132,198	532,309	2,953,428	877,034	1,854,208

(1) Information has only been available for nine years.

Table 1

	Education	Parks, Recreation, and Culture	Community Development	Interest on Debt	Total
\$	5,410,559	\$ 155,622	\$ 283,894	\$ 169,248	\$ 10,663,893
	6,127,888	193,231	164,272	169,068	11,806,532
	5,410,672	294,374	216,432	251,368	12,256,233
	7,629,521	225,558	205,087	267,527	14,362,315
	7,592,542	228,443	270,722	248,210	16,035,522
	8,225,502	238,922	305,234	225,831	16,767,030
	8,391,601	241,583	639,789	203,690	16,882,611
	8,071,433	244,550	325,359	197,662	16,365,024
	8,343,786	246,421	378,414	181,458	16,499,256

COUNTY OF RAPPAHANNOCK, VIRGINIA

Government-Wide Revenues

Last Ten Fiscal Years (1)

Fiscal Year	Program Revenues		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2003	\$ 172,510	\$ 1,893,568	\$ -
2004	283,165	2,110,482	-
2005	253,874	2,293,081	-
2006	308,467	2,324,731	-
2007	339,289	2,334,218	-
2008	276,758	2,558,265	-
2009	284,187	2,599,023	904,871
2010	358,573	2,471,657	-
2011	305,254	2,530,340	-

(1) Information has only been available for nine years.

Table 2

General Revenues						
General Property Taxes	Other Local Taxes	Non- Categorical Aid	Revenues from the Use of Money & Property	Miscel- laneous	Gain (Loss) on Sale of Capital Assets	Total
\$ 6,384,537	\$ 1,227,194	\$ 915,004	\$ 80,301	\$ 75,151	\$ -	\$ 10,748,265
7,002,957	1,425,419	948,361	101,017	1,459,016	-	13,330,417
7,230,696	1,515,769	928,725	222,278	457,428	326,938	13,228,789
8,913,921	1,604,026	1,055,482	220,283	244,720	(17,503)	14,654,127
10,886,332	1,580,303	1,041,329	356,280	455,436	(18,215)	16,974,972
11,143,774	1,549,361	996,131	159,274	378,239	-	17,061,802
11,710,846	1,464,226	945,020	34,864	101,921	-	18,044,958
11,161,961	1,060,099	1,329,829	138,021	236,906	-	16,757,046
10,480,557	1,164,317	1,302,957	143,521	169,700	-	16,096,646

COUNTY OF RAPPAHANNOCK, VIRGINIA

General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property
2002	\$ 6,181,199	\$ 1,134,925	\$ 119,704	\$ 31,586	\$ 91,917
2003	6,475,866	1,227,194	101,785	20,966	80,301
2004	6,962,108	1,425,419	182,622	25,076	101,017
2005	7,252,549	1,515,769	122,855	27,129	160,265
2006	8,922,135	1,604,026	104,884	35,203	220,283
2007	10,769,333	1,580,303	109,037	51,786	356,280
2008	11,117,838	1,549,361	85,455	62,669	159,274
2009	11,515,100	1,464,226	74,647	110,551	34,864
2010	11,103,838	1,060,099	159,247	96,766	138,021
2011	10,648,993	1,164,317	87,254	81,982	143,521

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

Table 3

	Charges for Services	Miscel- laneous	Recovered Costs	Intergovern- mental	Total
\$	379,345	\$ 146,850	\$ 172,144	\$ 6,092,858	\$ 14,350,528
	346,704	146,235	153,350	6,016,157	14,568,558
	411,137	150,721	126,615	6,299,225	15,683,940
	412,136	404,348	115,121	6,838,494	16,848,666
	500,171	306,576	155,701	7,068,091	18,917,070
	511,556	673,253	151,862	7,169,214	21,372,624
	457,042	578,031	144,501	7,055,659	21,209,830
	396,767	656,165	197,281	7,076,660	21,526,261
	382,811	346,560	201,817	6,682,045	20,171,204
	392,672	342,929	106,596	7,147,330	20,115,594

COUNTY OF RAPPAHANNOCK, VIRGINIA

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare
2002	\$ 702,492	\$ 320,180	\$ 1,785,509	\$ 721,294	\$ 1,060,541
2003	727,514	299,855	1,843,527	600,101	1,236,877
2004	764,343	438,430	2,176,138	664,326	1,156,777
2005	755,336	538,437	2,593,938	1,008,199	1,286,840
2006	861,878	519,428	2,330,775	1,298,423	1,439,241
2007	973,963	509,861	2,845,226	941,178	1,571,805
2008	1,038,743	580,762	2,917,462	1,141,193	1,833,125
2009	1,007,173	622,691	3,552,041	1,759,004	1,734,396
2010	1,191,617	545,066	3,046,524	1,149,842	1,701,457
2011	1,095,574	531,059	2,978,876	1,136,225	1,853,253

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

(2) Includes capital projects

(3) Excludes appropriation to School Board from General Fund

Table 4

	(2)(3) Education	(2) Recreation and Cultural	Community Development	Capital Projects	Debt Service	Total
\$	8,628,596	\$ 127,556	\$ 218,265	\$ -	\$ 752,974	\$ 14,317,407
	8,640,009	133,122	279,519	-	732,574	14,493,098
	9,433,125	170,731	159,897	-	465,809	15,429,576
	10,873,307	271,874	216,432	-	446,606	17,990,969
	10,589,127	203,058	205,087	3,036,686	829,571	21,313,274
	11,214,843	205,943	270,722	853,263	766,866	20,153,670
	11,701,595	523,193	305,234	25,558	738,345	20,805,210
	11,443,784	612,863	639,789	590,991	709,557	22,672,289
	11,069,818	194,747	325,359	3,912	628,064	19,856,406
	11,663,497	196,618	378,414	19,989	599,059	20,452,564

Assessed Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year	Public Utility					Total
	Real Estate	Personal Property	Mobile Homes	Real Estate	Real Estate	
2002	\$ 582,604,227	\$ 49,352,765	\$ 93,200	\$ 20,121,030	\$	652,171,222
2003	598,037,881	51,198,229	90,340	20,047,407		669,373,857
2004	838,190,002	53,468,732	106,820	25,066,048		916,831,602
2005	854,565,241	53,296,516	48,420	21,791,439		929,701,616
2006	875,497,928	59,300,910	38,220	18,594,932		953,431,990
2007	1,532,668,500	64,060,764	42,350	23,487,235		1,620,258,849
2008	1,559,835,500	64,527,171	98,320	22,028,458		1,646,489,449
2009	1,586,404,700	66,839,796	139,820	19,199,054		1,672,583,370
2010	1,603,162,900	56,473,495	86,120	21,541,208		1,681,263,723
2011	1,507,518,500	58,442,724	122,470	22,594,963		1,588,678,657

(1) 100% fair market value

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	(1) Total Tax Levy	(1) (2) Current Tax Collections	Percent of Levy Collected	(1) Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	(1) Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2002	\$ 6,955,273	\$ 6,661,421	96%	\$ 229,724	\$ 6,891,145	99%	\$ 75,182	1%
2003	7,195,568	6,885,776	96%	227,643	7,113,419	99%	82,149	1%
2004	7,775,425	7,490,369	96%	151,291	7,641,660	98%	71,471	1%
2005	8,034,264	7,796,041	97%	187,951	7,983,992	99%	70,466	1%
2006	9,916,060	9,638,617	97%	172,755	9,811,372	99%	104,688	1%
2007	11,744,339	11,444,415	97%	146,691	11,591,106	99%	101,325	1%
2008	12,080,516	11,774,838	97%	240,383	12,015,221	99%	130,897	1%
2009	12,483,406	11,082,994	89%	418,600	11,501,595	92%	186,409	1%
2010	11,644,497	11,253,240	97%	160,152	11,413,392	98%	231,105	2%
2011	11,171,214	10,756,034	96%	-	10,756,034	96%	368,759	3%

(1) Exclusive of penalties and interest.

(2) Includes personal property tax reimbursements from the Commonwealth of \$839,751, \$864,564, \$889,829 \$866,537, \$1,006,611, \$946,195, \$945,168, \$949,690, \$893,784 and \$951,180 for fiscal years 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 respectively.

Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Public Utility
2002	0.89	3.20	0.89	0.89
2003	0.85	3.00	0.85	0.85
2004	0.66	3.00	0.66	0.66
2005	0.68	3.00	0.68	0.68
2006	0.76	4.00	0.76	0.76
2007	0.54	4.00	0.54	0.54
2008	0.59	4.20	0.59	0.59
2009	0.55	4.00	0.55	0.55
2010	0.53	4.00	0.53	0.53
2011	0.53	4.00	0.53	0.53

(1) Per \$100 of assessed value, including fire levy

Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Bonded Debt (3)	Ratio of General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
2002	6,983	\$ 652,171,222	\$ 3,697,000	1%	\$ 529
2003	6,983	669,373,857	3,381,000	1%	484
2004	6,983	916,831,602	3,070,000	0%	440
2005	6,983	929,701,616	6,484,000	1%	929
2006	7,271	953,431,990	5,998,000	1%	825
2007	7,203	1,620,258,849	5,739,217	0%	797
2008	7,203	1,646,489,449	5,238,175	0%	727
2009	7,203	1,672,583,370	4,743,772	0%	659
2010	7,035	1,681,263,723	4,346,987	0%	618
2011	7,373	1,588,678,657	3,961,798	0%	537

(1) US Census Bureau

(2) From Table 5

(3) Includes all long-term general obligation bonded debt and Literary Fund Loans.
Excludes compensated absences, revenue bonds and landfill obligations.

Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service (2)	Total General Governmental Expenditures (1)	Ratio of Debt Service to General Governmental Expenditures
2002	\$ 326,000	\$ 183,756	\$ 509,756	\$ 14,317,407	4%
2003	316,000	169,246	485,246	14,493,098	3%
2004	311,000	154,809	465,809	15,429,576	3%
2005	306,000	140,606	446,606	17,990,969	2%
2006	486,000	343,571	829,571	21,313,274	4%
2007	481,000	285,866	766,866	20,153,670	4%
2008	476,000	262,345	738,345	20,805,210	4%
2009	471,000	238,557	709,557	22,672,289	3%
2010	400,623	227,441	628,064	19,856,406	3%
2011	389,439	209,620	599,059	20,452,564	3%

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

(2) Includes all general obligation debt. Does not include revenue bonds.

Compliance

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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*

The Honorable Members of the Board of Supervisors County of Rappahannock, Virginia

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the County of Rappahannock, Virginia's basic financial statements and have issued our report thereon dated December 21, 2011. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Rappahannock, Virginia'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*.

Compliance and Other Matters: (Continued)

We noted certain other matters that we reported to management of County of Rappahannock, Virginia in a separate letter dated December 21, 2011.

This report is intended solely for the information and use of management, the Board of Supervisors, 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.

Robinson, Tanner, Cox Associates

Charlottesville, Virginia

December 21, 2011

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**The Honorable Members of the Board of Supervisors
County of Rappahannock, Virginia**

Compliance

We have audited the County of Rappahannock, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The County of Rappahannock, Virginia'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 of Rappahannock, Virginia's management. Our responsibility is to express an opinion on the County of Rappahannock, Virginia'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 of Rappahannock, Virginia'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 of Rappahannock, Virginia's compliance with those requirements.

In our opinion, the County of Rappahannock, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of County of Rappahannock, Virginia 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 County of Rappahannock, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 County of Rappahannock, Virginia's internal control over compliance.

Internal Control Over Compliance: (Continued)

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of management, Board of Supervisors, 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.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
December 21, 2011

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Pass - through payments:			
Child Nutrition Cluster:			
State Department of Agriculture:			
Food distribution	10.555	10.555/2011	\$ 23,826
National School Lunch Program	10.555	10.555/2011	109,103
Total national school lunch program			\$ 132,929
Department of Education:			
School Breakfast Program	10.553	10.553/2011	33,288
Department of Social Services:			
SNAP Cluster:			
State Administrative Matching Grants for Nutrition Assistance Program	10.561	0010110/0010111	100,572
ARRA -- State Administrative Matching Grants for Nutrition Assistance Program	10.561	0040110/0040111	2,380
Total Department of Agriculture			\$ 269,169
Department of Health and Human Services:			
Pass - through payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	0950110/0950111	\$ 14,423
Temporary Assistance for Needy Families (TANF)	93.558	0400110/0400111	63,709
Refugee And Entrant Assistance -- State Administered Programs	93.566	0500110/0500111	203
Low-Income Home Energy Assistance	93.568	0600410/0600411	4,069
Chafee Education and Training Vouchers Program (ETV)	93.599	9160110	341
Child Welfare Services - State Grants	93.645	0900110/0900111	340
Foster Care - Title IV-E:			
Foster Care - Title IV-E	93.658	1100110/1100111	\$ 90,755
ARRA -- Foster Care - Title IV-E	93.658	1100110/1100111	3,126
Total foster care			\$ 93,881
Adoption Assistance:			
Adoption Assistance	93.659	1120110/1120111	6,983
ARRA -- Adoption Assistance	93.659	1120110/1120111	200
Total adoption assistance			\$ 7,183
Social Services Block Grant	93.667	1000110/1000111	46,973
Chafee Foster Care Independence Program	93.674	9150110/9150111	1,457
Children's Health Insurance Program	93.767	0540110/0540111	3,012
Medical Assistance Program	93.778	1200110/1200111	60,412
CCDF Cluster:			
Child Care and Development Block Grant	93.575	0770110/0770111	46,423
ARRA -- Child Care and Development Block Grant	93.713	0740110/0740111	2,898
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760110/0760111	17,355
Total Department of Health and Human Services			\$ 362,679

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Catalog Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of the Interior:			
Direct Payments:			
Bureau of Land Management - National			
Payments in Lieu of Taxes	15.226	-	\$ 76,782
Department of Transportation:			
Pass - through payments:			
Department of Motor Vehicles:			
State and Community Highway Safety	20.600	60507-50223	\$ 15,772
Department of Education:			
Pass - through payments:			
Department of Education:			
Career and Technical Education -- Basic Grants to States	84.048	V048A100046	\$ 13,050
Safe and Drug-Free Schools and Communities -- State Grants	84.186	Q186A090048	2,170
Improving Teacher Quality State Grants	84.367	S367A090044	38,618
ARRA -- State Fiscal Stabilization Funds -- Education State Grants	84.394	S394A090047	155,249
ARRA -- Education Jobs Fund	84.410	S410A100047	84,505
Title I Grants to Local Educational Agencies	84.010	S010A090046	112,432
Education Technology State Grants	84.318	S318X090046	947
Special Education Cluster (IDEA):			
Special Education -- Grants to States	84.027	H027A100107	187,195
Special Education -- Preschool Grants	84.173	H173A100112	4,681
ARRA -- Special Education -- Grants to States	84.391	H391A090107	82,634
ARRA -- Special Education -- Preschool Grants	84.392	H392A090112	5,553
Total Department of Education			\$ 687,034
Total expenditures of federal awards			\$ 1,411,436

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County of Rappahannock, Virginia under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of the County of Rappahannock, Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of the County of Rappahannock, Virginia.

Note 2 - Summary of Significant Accounting Policies

1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2) Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the County's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$ <u>558,184</u>
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Component unit School Board:

School Operating Fund	\$ 687,035
School Cafeteria Fund	<u>166,217</u>

Total component unit School Board	\$ <u>853,252</u>
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Total federal expenditures per basic financial statements	\$ <u>1,411,436</u>
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Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,411,436</u>
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COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
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?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
84.027/84.173/84.391/84.392	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:	\$	300,000
Auditee qualified as low-risk auditee?		Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2011

Significant deficiency:

2010-1

Condition:

In fiscal year 2010, the Sheriff's office maintained a Work Release Fund, which is funded with receipts from prisoners in the work release program. Fees paid by the prisoners in the program are designed to cover the cost of the program and to contribute to the cost of their incarceration. Total receipts in the account in fiscal 2010 were \$38,440. The Sheriff did not reconcile the work release bank account monthly as recommended by the Virginia Sheriff's Accounting Manual. In addition, this is the second year that the Sheriff is continuing to hold work release funds, now totaling \$38,170, and not depositing this money with the Treasurer as required by Section 15.2-1615 of the Code of Virginia.

Criteria:

Although the employees of the Sheriff's office are permitted to maintain funds not related to the official operations of the office, any direct involvement by the Sheriff in the funds could cause the funds to be considered locality functions. Funds associated with locality functions are required to be deposited with the County Treasurer, and must be appropriated by the County Board of Supervisors. Work release funds are statutorily considered locality funds, and must be remitted to the County Treasurer. Disbursement of such funds must be appropriated by the County Board of Supervisors.

Effect:

Work release funds are not permitted to be deposited into an account under control of the Sheriff. As a result, work release funds are not handled in compliance with the Code of Virginia. In addition, lack of a monthly reconciliation results in insufficient internal controls to ensure accountability over the work release funds.

Recommendation:

With respect to the Work Release account, we recommend that the Sheriff begin to remit these funds to the Treasurer as soon as is reasonably possible and that controls be implemented to ensure that all accounts are reconciled to the bank statement on a monthly basis.

We also recommend that a set of written procedures be developed and implemented for each source of funds received by the Sheriff's office. Such procedures should incorporate the recommendations and guidance provided by the Virginia Sheriff's Accounting Manual, to the extent the limited size of the County Sheriff's office permits.

Response:

Work release funds have been turned over to the Treasurer as of fiscal year 2011.

The Sheriff has also established written procedures for each account handled by the office that considers the guidance in the Virginia Sheriff's Accounting Manual.

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