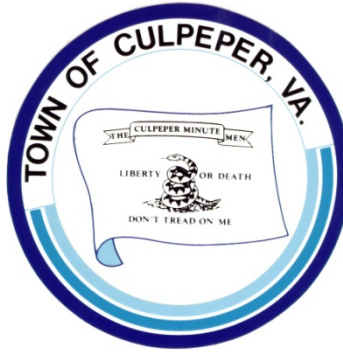


TOWN OF CULPEPER, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

OFFICE OF THE DIRECTOR OF FINANCE

TOWN OF CULPEPER, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis.....	3

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements	
Exhibit 1	Statement of Net Assets 12
Exhibit 2	Statement of Activities 13
Fund Financial Statements	
Exhibit 3	Balance Sheet – Governmental Funds 14
Exhibit 4	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 15
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 16
Exhibit 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities..... 17
Exhibit 7	Statement of Net Assets – Proprietary Funds 18
Exhibit 8	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds..... 19
Exhibit 9	Statement of Cash Flows – Proprietary Funds 20
Notes to Financial Statements 21	

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 10	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund..... 43
Exhibit 11	Analysis of Funding Progress for Defined Benefit Pension Plan and Other Post-Employment Benefits..... 45

OTHER SUPPLEMENTARY INFORMATION

Discretely Presented Component Units – Industrial Development Authority of the Town of Culpeper and Parking Authority of the Town of Culpeper	
Exhibit A-1 Balance Sheet – Governmental Funds	46
Exhibit A-2 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	47

SUPPORTING SCHEDULE

Schedule 1 Schedule of Expenditures of Federal Awards	48
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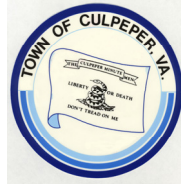
STATISTICAL SECTION

Table 1 Net Assets by Component	50
Table 2 Changes in Net Assets by Component	51
Table 3 Fund Balances – Governmental Funds	53
Table 4 Changes in Fund Balances – Governmental Funds	54
Table 5 Assessed Value and Actual Value of Taxable Property	55
Table 6 Direct and Overlapping Property Tax Rates	55
Table 7 Principal Property Taxpayers	56
Table 8 Property Tax Levies and Collections	57
Table 9 Ratios of Outstanding Debt by Type	58
Table 10 Ratios of General Bonded Debt Outstanding	58
Table 11 Legal Debt Margin Information	59
Table 12 Pledged Revenue Coverage	60
Table 13 Demographic and Economic Statistics	61
Table 14 Principal Employers	62
Table 15 Full-Time Equivalent Town Government Employees by Function	63
Table 16 Operating Indicators by Function	64
Table 17 Capital Asset Statistics by Function	65

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
Independent Auditor's 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 <i>OMB Circular A-133</i>	68
Summary of Compliance Matters	70
Schedule of Findings and Questioned Costs	71

INTRODUCTORY SECTION



November 30, 2010

To The Citizens of the Town of Culpeper:

In accordance with local ordinances and state statutes, the Town of Culpeper hereby submits the audited Comprehensive Annual Financial Report (CAFR) on its financial position and activities for the fiscal year ended June 30, 2010. This report was audited by the independent certified public accounting firm of Brown Edwards & Company, L.L.P., and the responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner that presents fairly the financial position and results of operations of the Town's various funds, and component units. All necessary disclosures have been included to enable the reader to gain an understanding of the financial activities of the Town.

THE REPORTING ENTITY AND SERVICES PROVIDED

The financial reporting entity (the government) includes all funds of the Town as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The Industrial Development Authority and the Parking Authority are the only discretely presented component units of the Town.

The Town of Culpeper provides a full range of services to its citizens including government administration; police protection; sanitation; the construction and maintenance of highways, streets, and infrastructure; general engineering; and planning and community development. In addition, the Town contributes to volunteer fire and rescue departments, economic and tourism development programs, cultural events, recreational activities and other civic and community service non-profit organizations. The Town also operates and manages electric, water, and sewer utilities, which serve approximately 7,500 customers.

ECONOMIC CONDITION AND OUTLOOK

Population growth has been a continued theme during the last four years for the Town, but grew at a considerably slower rate during FY10. Certificates of Occupancy (COs) are the Town's most definitive measure of current population growth. For each fiscal year FY03 through FY10, COs totaled 146, 302, 607, 469, 223, 130, 45 and 16 respectively. The peak occurred in FY05, with a corresponding single-year population increase of 12% or 1,500 persons.¹

Zoning and building permits are excellent indicators of growth in the near future, or from 12- to 24-months out. Similar to the CO trend, zoning and building permits in the Town peaked in FY04 with a combined total of 1,016 permits issued, steadied in FY05 with a combined total of 997, and slowed to 332, 196, and 321 in FY08, FY09, and FY10 respectively.

The Town is positioned in the D.C./Northern Virginia growth ring for a predictably steady population increase during the next two decades. This growth trend is changing the face of the Town to that of both a regional marketing area and commuter-oriented town. Culpeper is recognized regionally and statewide as a healthy and growing market. The Town's prior year's growth and development demonstrates that new opportunities exist for businesses that have either located in or are considering building in the area.

Due to this growth and the generally positive conditions that accompany it, the outlook for the Town remains upbeat. The Town remains a primary commercial and service area of Culpeper County and its neighboring counties. The Town has experienced an increase in the development of new shopping center anchor stores inside its corporate limits and in the immediate environs as well as new redevelopment activity in the downtown. The Town is fortunate to be able to rely on such elastic revenue sources as sales tax, business licenses, and meals and lodging taxes as steady income for balancing the governmental fund budget.

Not all of the consequences of growth are positive and the Town faces many challenges in the coming years to address the demands on capital facilities and operations of a growing population. As both commercial and residential development continues to occur just outside of the corporate limits, the Town will face an increasing demand for services without any ability to recover operating revenues. New commercial centers just outside of the Town limits will create competitive pressures on the older retail base in Town. The Town and County have made progress in their ongoing discussion of water and sewer services outside Town boundaries. Initial discussion had been directed toward a boundary line adjustment for the Town that would bring into Town boundaries commercial areas immediately outside those boundaries in exchange for the Town placing its water and sewer facilities into an Authority. The current focus has shifted away from the concept of an Authority and the Town and County are moving ahead with negotiations that allows the Town to keep ownership and control of its water and sewer facilities as well as incorporate selected commercial areas immediately outside Town boundaries and directly provide water and service to County customers at the same rate as in-Town customers. If approved by the local governing bodies, the agreement would then be offered for public comment at public hearings and then submitted for state and judicial review and approval.

MAJOR INITIATIVES IN FY10

FY10 brought a continued focus on improvement of Town operations and planning for a growing community. The following major projects were begun or continued during the fiscal year:

- New Police Station – Renovation on the new Police Station has been completed and the project came in under-budget. The new facility is now officially open.

¹ Each average household = 2.48 persons

- WWTP Upgrade and Expansion – Construction has been completed on the the upgrade and expansion of the WWTP.
- Streetscapes and Entryways – The town has budgeted and continues to make efforts to improve the downtown parking facilities, sidewalks, trails, bikeways and parks. This includes the three-phase \$989,000 Streetscapes and Entryways Project that will be funded 80% by VDOT Enhancement Grant money. VDOT has taken a long time to complete plan review as a result of its internal operational restructuring. The Town stands ready to begin construction on Phases I & II as soon as VDOT approves the plans. Additionally, the Town substantially completed work with a consultant on a Town Sidewalk, Bikeway, and Trail Master Plan with funds from VDOT and technical assistance from the Rappahannock-Rapidan Regional Planning Commission. The Plan was adopted by Council in August 2007.
- Automated Meter Reading – This project is funded by the Water Fund, WasteWater Fund, and the Light and Power Fund. We are collecting \$1.00 for each water and sewer meter and \$1.50 for each electric meter. This is a special assessment for the AMR project. By implementing AMR, it will provide more accurate and timely meter readings, help reduce the frequency of estimated readings, allow customers to view their energy and water usage on a daily basis, and eliminate the need to hire additional meter reading personnel and equipment to meet the demands of the growing customer base. This project offers the Town the ability to automate its meter reading and complete the return on the capital investment in nine years. Professional proposals have been submitted to the Town and are currently under review. Contract award is anticipated in FY11.
- Computer System Upgrade – In FY08, the groundwork began for implementing the new Microsoft Dynamics Great Plains/Cogsdale Corporation software. Payroll and Accounts Payable went online in FY08 and the Utility Billing and Customer Service Management modules were brought online in February 2010. The Town is exploring additional modules to implement that will allow greater interaction on the part of the Town citizen and these modules should be implemented in FY11. Additionally, the Town has implemented online payment for taxes and utility billing and will have payment-by-phone for those services available by January 2011.

MAJOR INITIATIVES IN THE FUTURE

FY11 brings a continued focus on improvement of Town operations and planning for a growing community. General Fund operating revenues are projected to be much more limited than in recent years

The Town has started work with its financial advisors, Davenport and Company, for the development of a Financial Master Plan for the Town. Similar to a Comprehensive Plan used by Planning and Zoning, the Financial Master Plan will look at near-term, intermediate-term, and long-term funding and financing issues facing the Town, both for the General Fund and the Enterprise Fund departments.

Our focus on utility system improvements in recent years has been on the wastewater side, primarily because of the limited treatment capacity and the restrictive impact of nutrient removal regulations. For the near future, the Town will focus its attention on the planning of water capital facilities. Staff and Council have started work on a strategy for expanding its water treatment capacity and treated water storage. The Water Treatment Plant has a current operating capacity of 4 million gallons per day (MGD), and several months in the summer of 2008 have averaged over 3MGD in daily water production. Additional storage is needed throughout the Town in order to meet the peak demands of weekday mornings. This need is most evident in the southeast part of Town. In 2004, the Town adopted a Water Supply Master Plan that recommended several projects to increase the source of raw water for the next 40 years. While planning a new reservoir is a long-term project, there are some improvements that can be accomplished in the near-term to affect an increase in the safe yield of raw water. The first of these will be to rehabilitate the intake structure and valves at Mountain Run Lake to optimize flow between it and the primary reservoir downstream, Lake Pelham. For a relatively low cost (\$200,000), the result would increase safe yield by as much as 700,000 gallons per day (GPD).

DEPARTMENT FOCUS

The Town Treasurer's Department provides, maintains and supports Town departments and Town staff in all aspects of finance. It is the mission of the Treasurer's office to fulfill its constitutional and statutory responsibilities placing priority on prudent management and stewardship of the financial resources of the Town and ensuring fiscal integrity and sound accounting practices and providing customer service through excellence in treasury management. The Treasurer's Office is committed to strive towards more efficient services focusing on technology solutions that meet and exceed our service demands.

Town Treasurer's Department

The Treasurers Office will continue to move towards more efficient operations, maintaining a high level of customer service to the citizens and the departments/agencies of the town. It is our goal to timely and accurately report the financial status of the Town; to maximize the collection of monies due the Town in a cost-effective manner; to establish and maintain proper internal controls over policies and procedures performed by the Town; and to utilize technology to its fullest potential with the benefits of streamlining processes and eliminating duplicity and manual processes wherever cost-effective.

The following represents a list of highlights and projects implemented during the fiscal year 2010:

Timely And Accurately Report The Financial Status Of The Town

The Treasurer's has received the Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2009. It is our goal to achieve this excellence award again for fiscal year ended June 30, 2010. This award is a certificate of achievement for excellence in financial reporting and is presented by the Government Finance Officers Associate of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Maximize the Collection Of Monies Due The Town In A Cost-effective Manner

To help collect on past due accounts, we implemented placing DMV stops on citizens driver's license renewals that owe us for back personal property taxes for the amount of \$20 per stop, which is recovered when the citizen pays their back taxes. When a citizen attempts to renew their driver's license, they are unable to do so. The DMV tells them that we have placed a stop on the renewal until the delinquent personal property taxes are paid. Once the citizen has paid these taxes, we remove the DMV stop on their driver's license, and they are able to obtain their license renewal. If citizens owe us for utility bills, we place a warrant in debt with the courts. This can be for water, sewer, and electric bills that have not been paid. Once the warrant has been satisfied, we notify the courts that the warrant in debt has been paid.

Establish and Maintain Proper Internal Controls

Internal controls are a critical component of the Treasurer's office and all segments of operations within the department as well as between the Treasurer's office and other Town departments are under periodic review and upgrade. Changes and enhancements are implemented as necessary to improve controls while still maintaining a responsive service level to the Town citizens and employees.

Utilize Technology to Its Fullest Potential

The Town of Culpeper has upgraded its computer software system, with a new software package which includes; financial reporting, utility billing, property taxes, and other billing functions. The software will enhance customer service by offering on-line services (bill inquiry, bill payment, and application), electronic payment options, automatic payment/posting service, payroll direct deposit, and automated mortgage payment of real estate taxes. In addition, the software offers more robust reporting capabilities, user-friendly applications, system driven budgeting, and departmental requisition/payroll time entry capabilities.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The Town's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when services or goods are received and the fund liabilities are incurred. Accounting records for proprietary fund types are maintained on the accrual basis with revenues and expenses being recorded when earned or incurred.

In developing or modifying the Town's accounting system, consideration is given to the adequacy or internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition, and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that: (a) the cost of control should not exceed the benefits likely to be derived, and (b) the evaluation of costs and benefits requires estimates and judgements by management. All internal control evaluations occur within the above framework. The Town's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Cash Management Policies and Practices. The Town has the majority of its cash invested in the Local Government Investment Pool and certificates of deposits in various banks, ranging from three to five year terms. The Town's principal investment objectives are: (1) conformance with all federal regulations, state statutes and other legal requirements, including the Town Charter and Town ordinances and the Town's written investment policy, (2) preservation of capital and the protection of investment principal, (3) maintenance of sufficient liquidity to meet anticipated disbursements and cash flows, (4) diversification to avoid incurring unreasonable risks regarding securities owned, and (5) attainment of a high rate of return for the Town's investments. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the Town, its agent or a financial institution's trust department in the Town's name.

Risk Management Practices. The Town periodically reviews its risk management program. Substantially all of the Town's coverage is through the Virginia Municipal Liability Pool and Virginia Municipal Group Self-Insurance Association who insures through third party insurers.

OTHER INFORMATION

Independent Audit. Virginia law requires that the financial statements of the Town be audited by a Certified Public Accountant (or alternatively, by the Auditor of Public Accounts) selected by Town Council. An annual audit of the Comprehensive Annual Financial Report has been performed by Brown Edwards & Company, L.L.P.. Their audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audit of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The auditor's report, which includes their opinion on the financial statements of various funds and account groups of the Town is contained in this report on page one of the Financial Section. Other auditor's reports are included in the Compliance Section.

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

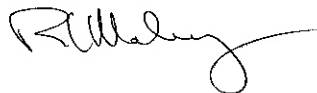
Awards. The Government Finance Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Culpeper for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2009. The Certificate of achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must timely publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must easily satisfy both generally accepted governmental accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments. The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the Engineering, Environmental Services, Light and Power, Management Information Systems, Planning, Police, Public Works, Tourism and Treasury Departments. Each member of these departments has our sincere appreciation for the contributions made in the preparation of this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Mabry', with a stylized flourish at the end.

Ronald L. Mabry
Town Treasurer / Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Culpeper
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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



President

Executive Director

TOWN OF CULPEPER, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

TOWN COUNCIL

Pranas A. Rimeikis, Mayor
William M. Yowell, Vice-Mayor

Calvin L. Coleman
Duke duFrane
Laurel Care Gravatte
Robert M. Ryan

David B. Lochridge
Michael T. Olinger
James C. Risner

APPOINTED OFFICIALS

TOWN MANAGER

Jeffery Muzzy

TOWN CLERK

Kimberly D. Allen

ASSISTANT TOWN MANAGER

Open

TREASURER/DIRECTOR OF FINANCE

Ronald L. Mabry

TOWN ATTORNEY

Robert W. Bendall

DEPARTMENT HEADS

DIRECTOR OF LIGHT AND POWER

Mark Bly

DIRECTOR OF PUBLIC WORKS

Robert H. Thornhill, Jr.

CHIEF OF POLICE

Chris Jenkins - Interim

**DIRECTOR OF PLANNING AND
COMMUNITY DEVELOPMENT**

Patrick Mulhern

INFORMATION SYSTEMS DIRECTOR

Tonya Estes

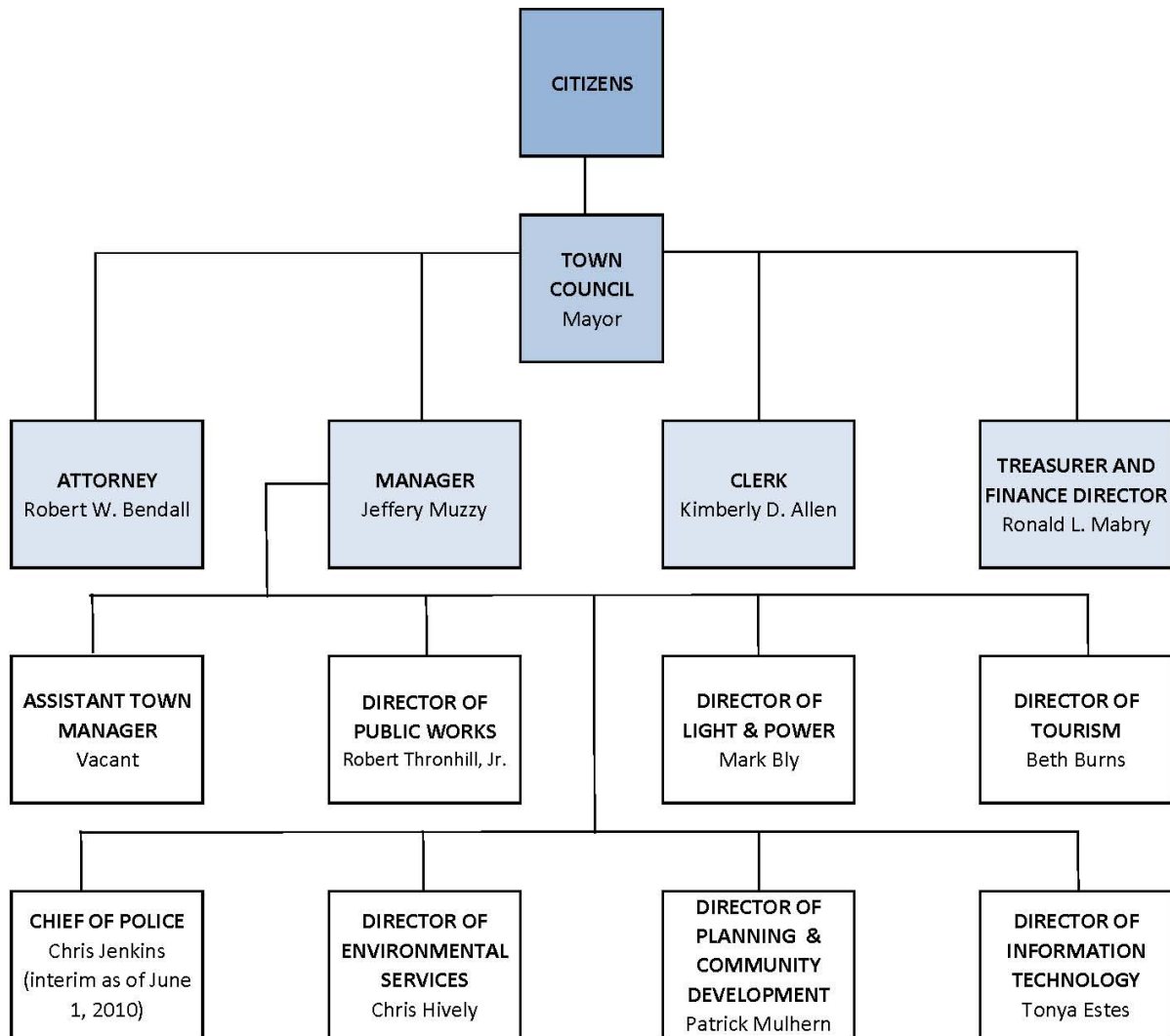
TOURISM DIRECTOR

Beth Burns

ENVIRONMENTAL SERVICES DIRECTOR

Chris Hively

TOWN OF CULPEPER ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of Town Council
Town of Culpeper, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 *Specifications for Audits of Counties, Cities, and Towns*, and *Specifications for Audits of Authorities, Boards and Commissions* 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the financial statements, the Town adopted the provisions of GASB Statement No. 45, *Financial Reporting of Post-employment Benefit Plans Other Than Pension Plans*, in 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 3 through 11, 43 through 45, and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, other supplementary information section, and the statistical section 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 other supplementary information section 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 by us 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 introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Culpeper, Virginia (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages *i* through *vi* of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of current fiscal year by \$81,018,160 (net assets). Of this amount, \$30,582,078 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$4,471,564, which is primarily attributable to an Enterprise Fund/Wastewater grant from DEQ for major upgrades to the wastewater treatment plant. Coupled with this item is an overall reduction in Enterprise Fund operational expenses and General Fund operational expenses.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$9,431,135, an increase of \$5,018,829 in comparison with the prior year. Approximately 55% of this total amount, \$5,259,660 or 37% of total general fund expenditures, is available for spending at the government's discretion (unreserved fund balance).
- The Town's total debt increased by \$4,317,181 (11.1%) during the current fiscal year due to issuance of General Obligation bond.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, parks, recreation, and cultural, and community development. The business-type activities are the water, wastewater, and electric funds.

Overview of the Financial Statements (Continued)

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

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

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

The Town maintains two individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund and for the cemetery perpetual trust fund which is considered to be a nonmajor fund.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – The Town maintains three proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water, wastewater, and electric operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater, and electric operations.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's funding progress for the defined benefit pension plan and other post-employment benefits.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$81,018,160 at the close of the most recent fiscal year.

Government-Wide Financial Analysis (Continued)

A portion of the Town's net assets, \$49,843,601 (62%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Town's net assets, \$592,481 (1%), is restricted for the Veteran's monument and the cemetery fund. The remaining balance of *unrestricted net assets* (37%) may be used to meet the government's ongoing obligations to citizens and creditors.

	The Town's Net Assets					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 11,986,528	\$ 10,171,184	\$ 30,753,364	\$ 30,844,785	\$ 42,739,892	\$ 41,015,969
Capital assets	32,028,112	31,497,159	58,404,373	56,413,703	90,432,485	87,910,862
Total assets	44,014,640	41,668,343	89,157,737	87,258,488	133,172,377	128,926,831
Long-term liabilities	12,675,953	7,360,470	29,046,885	30,213,765	41,722,838	37,574,235
Current liabilities	3,426,524	6,768,650	7,004,855	8,037,350	10,431,379	14,806,000
Total liabilities	16,102,477	14,129,120	36,051,740	38,251,115	52,154,217	52,380,235
Net assets						
Invested in capital assets, net of related debt	\$ 21,719,577	\$ 23,529,267	\$ 28,124,024	\$ 23,031,299	\$ 49,843,601	\$ 46,560,566
Restricted	592,481	-	-	2,470,415	592,481	2,470,415
Unrestricted	5,600,105	4,009,956	24,981,973	23,505,659	30,582,078	27,515,615
Total net assets	\$ 27,912,163	\$ 27,539,223	\$ 53,105,997	\$ 49,007,373	\$ 81,018,160	\$ 76,546,596

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets.

The Town's net assets increased by \$4,471,564, or 5.8%, during the current fiscal year. The key elements of this change are related to an Enterprise Fund/Wastewater grant from DEQ for major upgrades to the wastewater treatment plant. Coupled with this item is an overall reduction in Enterprise Fund operational expenses and General Fund operational expenses.

Governmental Activities – Governmental activities increased the Town's net assets by \$372,940. Key elements of this increase are increases in revenues for Charges for Services, Operating Grants and Contributions, and Property Tax receipts. Coupled with these revenue increases was an overall reduction in expenditures for most General Fund departments and functions.

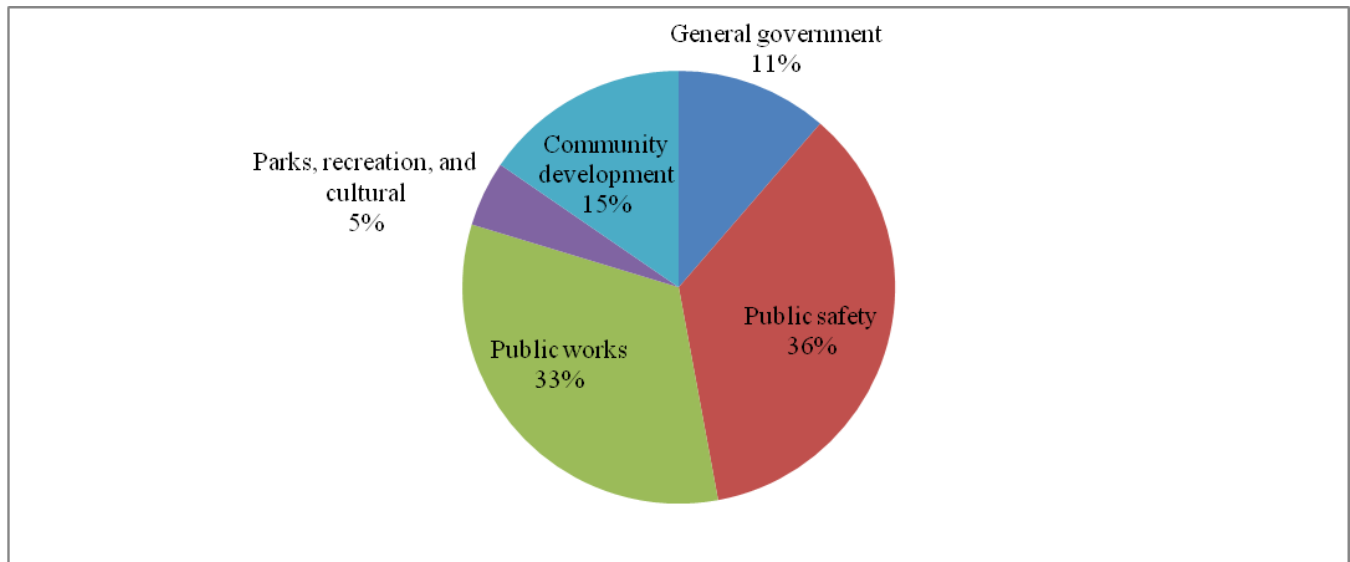
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. A noteworthy exception, however, is the decrease in investment earnings. The investment earnings category decreased by \$110,375 or 81%. This is a reflection of the severe decrease in interest rates for investments being faced by most localities.

Business-type Activities – Business-type activities increased the Town’s net assets by \$4,098,624. Key elements of this increase are as follows:

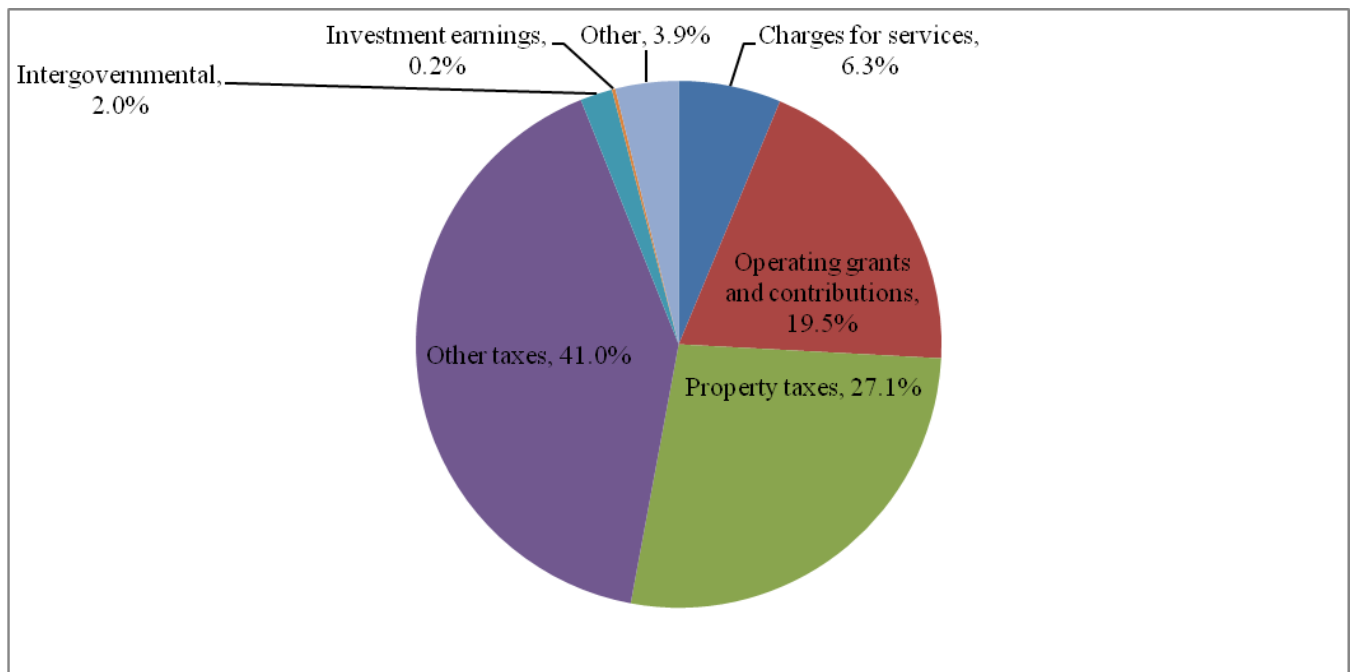
1. WWTP grant from DEQ for major upgrades to the Town’s wastewater treatment plant.
2. Overall reduction in expenditures for all Enterprise Fund departmental operations

	The Town’s Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 734,904	\$ 621,943	\$ 16,140,902	\$ 16,045,467	\$ 16,875,806	\$ 16,667,410
Operating grants and contributions	2,280,820	1,744,620	-	-	2,280,820	1,744,620
Capital grants and contributions	-	-	2,823,708	817,398	2,823,708	817,398
General revenues						
Property taxes	3,159,991	2,568,973	-	-	3,159,991	2,568,973
Other taxes	4,783,087	4,607,408	-	-	4,783,087	4,607,408
Intergovernmental revenue unrestricted	230,617	230,058	-	-	230,617	230,058
Investment earnings	25,398	135,773	329,668	738,832	355,066	874,605
Other	453,053	508,078	573,216	-	1,026,269	508,078
Total revenues	<u>11,667,870</u>	<u>10,416,853</u>	<u>19,867,494</u>	<u>17,601,697</u>	<u>31,535,364</u>	<u>28,018,550</u>
Expenses						
General government	1,257,522	1,620,482	-	-	1,257,522	1,620,482
Public safety	3,962,281	4,082,574	-	-	3,962,281	4,082,574
Public works	3,615,820	4,196,462	-	-	3,615,820	4,196,462
Health and welfare	-	11,378	-	-	-	11,378
Parks, recreation, and cultural	541,764	555,241	-	-	541,764	555,241
Community development	1,709,856	1,116,215	-	-	1,709,856	1,116,215
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	509,832	295,133	-	-	509,832	295,133
Water	-	-	2,836,510	3,044,418	2,836,510	3,044,418
Wastewater	-	-	3,745,960	4,778,920	3,745,960	4,778,920
Electric	-	-	8,884,255	9,596,223	8,884,255	9,596,223
Total expenses	<u>11,597,075</u>	<u>11,877,485</u>	<u>15,466,725</u>	<u>17,419,561</u>	<u>27,063,800</u>	<u>29,297,046</u>
Excess (deficiency) before transfers	70,795	(1,460,632)	4,400,769	182,136	4,471,564	(1,278,496)
Transfers	<u>302,145</u>	<u>-</u>	<u>(302,145)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	372,940	(1,460,632)	4,098,624	182,136	4,471,564	(1,278,496)
Net assets – July 1	<u>27,539,223</u>	<u>28,999,855</u>	<u>49,007,373</u>	<u>48,825,237</u>	<u>76,546,596</u>	<u>77,825,092</u>
Net assets – June 30	<u>\$27,912,163</u>	<u>\$27,539,223</u>	<u>\$53,105,997</u>	<u>\$49,007,373</u>	<u>\$81,018,160</u>	<u>\$76,546,596</u>

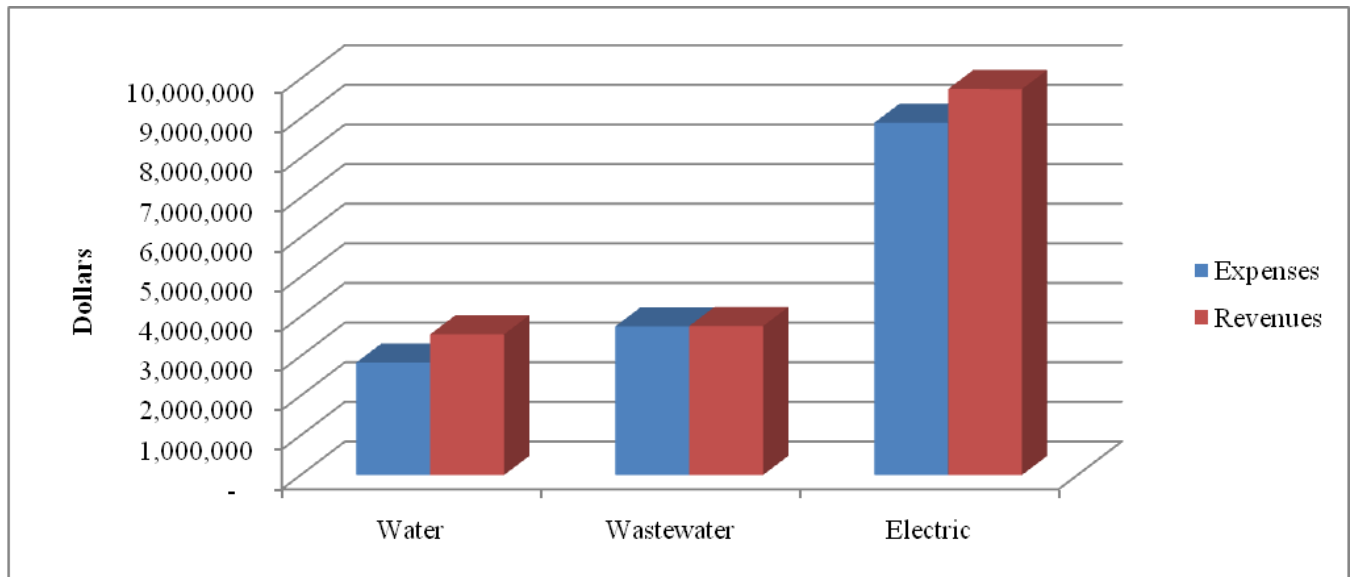
Expenses – Governmental Activities



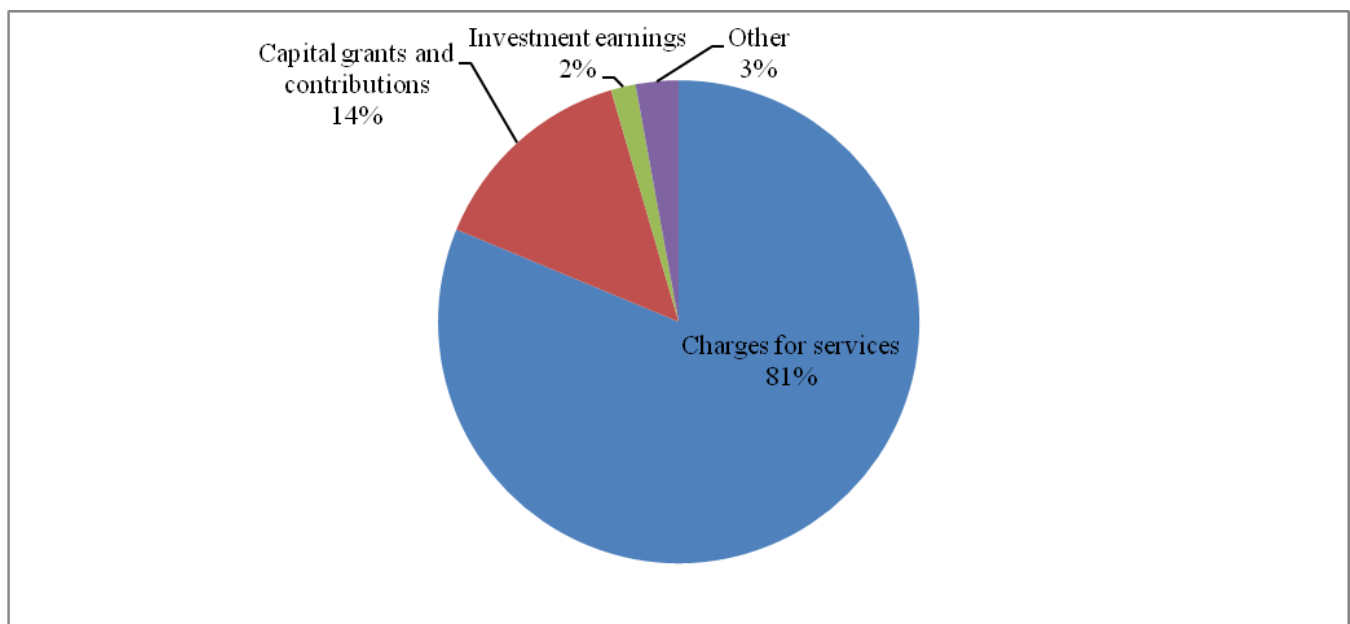
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Financial Analysis of the Government's Funds

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

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

Financial Analysis of the Government's Funds (Continued)

As of the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$9,431,135, an increase of \$5,018,829 in comparison with the prior year. Approximately 97% of this total amount – that is, \$9,193,560 constitutes *unreserved fund balance*, which is available for spending at the Town's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

As a measure of the governmental fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 65% of total governmental fund expenditures, while total fund balance represents 67% of that same amount.

The fund balance of the Town's general fund increased by \$4,961,495 during the current fiscal year. The primary reasons behind this increase are:

- Increased collections in some tax lines, especially general property tax
- Overall reduction in spending by all General Fund and Enterprise Fund departments
- Capital Projects did not spend at budgeted levels and some capital projects were not started
- General Obligation bond for new Police Building was at a lower level than originally anticipated

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water fund at the end of the year equaled \$15,807,136; the wastewater fund equaled \$6,976,191; and the unrestricted net assets for the electric fund amounted to \$2,198,646. The total increase in net assets was \$4,098,624. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$(950,110). Highlights are as follows:

- Revenue: Categorical Aid – additional law enforcement grant
- Revenue: Fund Balance – Prior Year balance reserve adjustment
- Revenue: Fund Balance – Contingency unreserved adjustment
- General Fund-Police – changes in overtime budget
- General Fund-Police – change in software expenditures
- General Fund-Police – change in grant expenditure
- General Fund-Streets – change in Repair & Maintenance expenditure for Streets department
- General Fund-Streets – change in Repair & Maintenance expenditure for Traffic Engineering
- General Fund-Planning & Zoning – change in expenditure for Consulting service
- General Fund-Community Development – change in Sponsorship expenditures for Channel 21
- Capital Projects – change in expenditure for Lake Pelham Boat Ramp improvements
- Capital Projects – change in expenditures for Infrastructure projects
- Capital Projects – change in Engineering Services related to several projects
- Capital Projects – change in Machinery & Equipment expenses related to several projects

General Fund Budgetary Highlights (Continued)

- Capital Projects – change in expenditures for Buildings & Improvements projects
- Enterprise Fund-Electric – change in Transfer In amount
- Enterprise Fund-Electric – change in Contingency Unreserved amount
- Debt Issuance – correction in recording of Loan Proceeds amount

Differences between the final amended budget and actual results amounted to \$5,808,971. Highlights are as follows:

- The Town budgeted to issue \$7,129,000 of general obligation bonds; only \$5,629,000 was issued, resulting in a negative variance of \$(1,500,000).
- The budget for the Town's general property tax revenue was \$2,587,782. The actual revenue amount was \$3,054,303, resulting in a positive variance of \$466,521.
- The budget for the Town's intergovernmental revenue was \$1,997,018. The actual revenue amount was \$2,562,603, resulting in a positive variance of \$565,585.
- The budget for the Town's general government administration expenses was \$2,637,322. The actual expenses amounted to \$2,146,254, resulting in a positive variance of \$491,068.
- The budget for the Town's public works expenses was \$3,090,670. The actual expenses amounted to \$2,678,356, resulting in a positive variance of \$412,314.
- The budget for the Town's capital projects expenses was \$7,272,939. The actual expenses amounted to \$2,675,162, resulting in a positive variance of \$4,597,777.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$90,432,485 (net of accumulated depreciation). This includes land; construction in progress; buildings and system improvements; and machinery, equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year was 3.8% (a 1.5% increase for governmental activities and a 5.0% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

	The Town's Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,069,505	\$ 1,069,505	\$ 1,340,731	\$ 1,340,731	\$ 2,410,236	\$ 2,410,236
Buildings and improvements	20,966,319	15,487,129	94,500,990	62,228,256	115,467,309	77,715,385
Machinery and equipment	4,584,569	4,190,571	3,315,040	3,077,592	7,899,609	7,268,163
Infrastructure	31,924,323	31,822,586	-	-	31,924,323	31,822,586
Construction in progress	1,733,380	5,533,638	12,000	28,129,403	1,745,380	33,663,041
Less accumulated depreciation	(28,249,984)	(26,606,269)	(40,764,388)	(38,362,279)	(69,014,372)	(64,968,548)
Total	\$ 32,028,112	\$ 31,497,160	\$ 58,404,373	\$ 56,413,703	\$ 90,432,485	\$ 87,910,863

Additional information on the Town's capital assets can be found in Note 6 of this report.

Economic Factors

- The unemployment rate for the Culpeper Town/County area was 8% for June 2010. The rate shows a decrease from 8.4% for the same period (June) in 2009. The average unemployment for FY10 was 8.2%.
- Home foreclosure data for the period ending June 2010 showed 32 homes in foreclosure which is a decrease from 290 for the 2009 calendar year.
- Commercial-industrial construction for the Town/County area continues to show growth: The NAP of the Capital Region, Terremark Worldwide, Inc. continues to develop their data center campus. Data Center B and the office complex, total value of \$100 million will be completed in spring of 2010. Construction of Data Centers C and D, total value of \$100 million, are expected to begin in 2010 and be completed by early 2011. Build out of the entire campus is expected to be completed ahead of the six-year schedule and will result in approximately \$450 million in new capital investment.
- Overall, tax receipts related to local business and tourism continue to show strength. Sales tax, meals tax, and lodging tax receipts are holding overall and showing growth in some areas.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of \$43,378,267. This amount is comprised of debt backed by the full faith and credit of the government.

	The Town's Outstanding Debt					
	General Obligation Bonds					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 13,097,918	\$ 7,967,892	\$ 30,425,062	\$ 31,284,657	\$ 43,522,980	\$ 39,252,549
Bond premium	-	-	19,149	19,833	19,149	19,833
Loss on refunding	-	-	(163,862)	(211,296)	(163,862)	(211,296)
Total	\$ 13,097,918	\$ 7,967,892	\$ 30,280,349	\$ 31,093,194	\$ 43,378,267	\$ 39,061,086

The Town's total debt increased by \$4,317,181 or 11.1% during the current fiscal year due to debt issued.

The Town maintains an Aa2 rating from Standard & Poor's for its outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Note 7 of this report.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, Town of Culpeper, 400 South Main Street, Suite 109, Culpeper, Virginia 22701.

BASIC FINANCIAL STATEMENTS

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority	Parking Authority
ASSETS					
Cash and cash equivalents (Note 2)	\$ 6,956,761	\$ 26,250,762	\$ 33,207,523	\$ 82,325	\$ -
Receivables, net (Note 3)	498,918	2,309,715	2,808,633	-	3,282
Accrued interest receivable	-	101,267	101,267	-	-
Due from other governmental units (Note 5)	231,334	583,771	815,105	-	-
Inventories	-	1,035,952	1,035,952	-	-
Cash and cash equivalents, restricted (Note 2)	4,144,464	-	4,144,464	-	-
Prepaid expenses	53,524	20,128	73,652	-	-
Deferred expenses	101,527	451,769	553,296	-	-
Capital assets: (Note 6)				-	-
Nondepreciable	2,802,885	1,352,731	4,155,616	-	-
Depreciable, net	29,225,227	57,051,642	86,276,869	-	-
Total assets	44,014,640	89,157,737	133,172,377	82,325	3,282
LIABILITIES					
Accounts payable and accrued liabilities	354,700	912,049	1,266,749	-	2,234
Accrued payroll and related liabilities	320,597	141,404	462,001	-	-
Accrued interest payable	221,949	498,638	720,587	-	-
Due to other governmental units (Note 5)	-	2,999,947	2,999,947	-	-
Customer security deposits	-	968,924	968,924	-	-
Other liabilities	1,485,908	-	1,485,908	-	-
Noncurrent liabilities: (Note 7)				-	-
Due within one year	1,043,370	1,483,893	2,527,263	-	-
Due in more than one year	12,675,953	29,046,885	41,722,838	-	-
Total liabilities	16,102,477	36,051,740	52,154,217	-	2,234
NET ASSETS					
Invested in capital assets, net of related debt	21,719,577	28,124,024	49,843,601	-	-
Restricted:					
Veterans' monument donations	113,600	-	113,600	-	-
Cemetery fund-nonexpendable	478,881	-	478,881	-	-
Unrestricted	5,600,105	24,981,973	30,582,078	82,325	1,048
Total net assets	\$ 27,912,163	\$ 53,105,997	\$ 81,018,160	\$ 82,325	\$ 1,048

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Authority	Parking Authority
					Governmental Activities	Business-Type Activities	Total		
Governmental activities:									
General government administration	\$ 1,257,522	\$ -	\$ -	\$ -	\$ (1,257,522)	\$ -	\$ (1,257,522)	\$ -	\$ -
Public safety	3,962,281	217,637	372,266	-	(3,372,378)	-	(3,372,378)	-	-
Public works	3,615,820	149,335	1,418,168	-	(2,048,317)	-	(2,048,317)	-	-
Parks, recreation, and cultural	541,764	358,254	5,000	-	(178,510)	-	(178,510)	-	-
Community development	1,709,856	9,678	485,386	-	(1,214,792)	-	(1,214,792)	-	-
Interest on long-term debt	509,832	-	-	-	(509,832)	-	(509,832)	-	-
Total governmental activities	11,597,075	734,904	2,280,820	-	(8,581,351)	-	(8,581,351)	-	-
Business-type activities:									
Water	2,836,510	3,022,229	-	-	-	185,719	185,719		
Wastewater	3,745,960	3,383,665	-	2,823,708	-	2,461,413	2,461,413		
Electric	8,884,255	9,735,008	-	-	-	850,753	850,753		
Total business-type activities	15,466,725	16,140,902	-	2,823,708	-	3,497,885	3,497,885		
Total primary government	\$ 27,063,800	\$ 16,875,806	\$ 2,280,820	\$ 2,823,708	(8,581,351)	3,497,885	(5,083,466)		
Component Units:									
Industrial development authority	\$ 438,233	\$ 437,705	\$ -	\$ -	-	-	-	(528)	-
Parking authority	97,287	80,580	-	-	-	-	-	-	(16,707)
Total component units	\$ 535,520	\$ 518,285	\$ -	\$ -	-	-	-	(528)	(16,707)
General revenues:									
Property taxes					3,159,991	-	3,159,991	-	-
Sales tax					1,069,068	-	1,069,068	-	-
Business license tax					1,103,611	-	1,103,611	-	-
Bank stock tax					271,467	-	271,467	-	-
Cigarette tax					148,459	-	148,459	-	-
Hotel and motel room tax					256,849	-	256,849	-	-
Meals tax					1,748,975	-	1,748,975	-	-
Other local taxes					184,658	-	184,658	-	-
Intergovernmental revenue, unrestricted					230,617	-	230,617	-	-
Unrestricted investment earnings					25,398	329,668	355,066	-	-
Other					453,053	573,216	1,026,269	-	-
Transfers (Note 4)					302,145	(302,145)	-	-	-
Total general revenues and transfers					8,954,291	600,739	9,555,030	-	-
Change in net assets					372,940	4,098,624	4,471,564	(528)	(16,707)
Net assets at July 1, as restated (Note 15)					27,539,223	49,007,373	76,546,596	82,853	17,755
Net assets at June 30					\$ 27,912,163	\$ 53,105,997	\$ 81,018,160	\$ 82,325	\$ 1,048

TOWN OF CULPEPER, VIRGINIA

BALANCE SHEET –
GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
ASSETS			
Cash and cash equivalents	\$ 6,478,824	\$ 477,937	\$ 6,956,761
Cash and cash equivalents, restricted	4,144,464	-	4,144,464
Receivables, net (Note 3)	497,974	944	498,918
Prepaid items	53,524	-	53,524
Due from other governmental units (Note 5)	231,334	-	231,334
Total assets	<u>\$ 11,406,120</u>	<u>\$ 478,881</u>	<u>\$ 11,885,001</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 354,700	\$ -	\$ 354,700
Accrued payroll and related liabilities	320,597	-	320,597
Deferred revenue	292,661	-	292,661
Other liabilities	1,485,908	-	1,485,908
Total liabilities	<u>2,453,866</u>	<u>-</u>	<u>2,453,866</u>
Fund balances: (Note 8)			
Reserved for:			
Prepays	53,524	-	53,524
Encumbrances	70,451	-	70,451
Veterans' monumment donations	113,600	-	113,600
Unreserved, reported in:			
Designated	3,933,900	-	3,933,900
Undesignated	4,780,779	478,881	5,259,660
Total fund balances	<u>8,952,254</u>	<u>478,881</u>	<u>9,431,135</u>
Total liabilities and fund balances	<u>\$ 11,406,120</u>	<u>\$ 478,881</u>	<u>\$ 11,885,001</u>

TOWN OF CULPEPER, VIRGINIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2010

Total Fund Balances – Governmental Funds \$ 9,431,135

Amounts 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:

Nondepreciable capital assets	\$ 2,802,885	
Depreciable capital assets, net	29,225,227	
	32,028,112	32,028,112

Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt in the statement of net assets:

Issuance costs total \$116,499 and		
accumulated amortization totals \$14,972		101,527

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.		292,661
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(13,097,918)	
Accrued interest payable	(221,949)	
Other post-employment benefits	(33,578)	
Compensated absences	(587,827)	
	(13,941,272)	(13,941,272)

Total Net Assets – Governmental Activities \$ 27,912,163

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2010

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
REVENUES			
General property taxes	\$ 3,054,303	\$ -	\$ 3,054,303
Other local taxes	4,684,124	-	4,684,124
Permits, privilege fees, and regulatory licenses	256,426	-	256,426
Fines and forfeitures	166,292	-	166,292
Revenues from use of money and property	245,570	4,134	249,704
Charges for services	39,225	53,200	92,425
Other	401,587	-	401,587
Recovered costs	1,630,016	-	1,630,016
Intergovernmental	2,562,603	-	2,562,603
Total revenues	<u>13,040,146</u>	<u>57,334</u>	<u>13,097,480</u>
EXPENDITURES			
Current:			
General government administration	2,146,254	-	2,146,254
Public safety	3,866,967	-	3,866,967
Public works	2,678,356	-	2,678,356
Parks, recreation, and cultural	489,512	-	489,512
Community development	1,233,053	-	1,233,053
Capital projects	2,675,162	-	2,675,162
Debt service:			
Principal retirement	498,974	-	498,974
Interest and fiscal charges	393,527	-	393,527
Total expenditures	<u>13,981,805</u>	<u>-</u>	<u>13,981,805</u>
Excess (deficiency) of revenues over expenditures	<u>(941,659)</u>	<u>57,334</u>	<u>(884,325)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of general obligation bonds	5,629,000	-	5,629,000
Bond issuance costs	(27,991)	-	(27,991)
Transfers in	302,145	-	302,145
Total other financing sources (uses)	<u>5,903,154</u>	<u>-</u>	<u>5,903,154</u>
Net change in fund balances	4,961,495	57,334	5,018,829
FUND BALANCES AT JULY 1, as restated (Note 15)	<u>3,990,759</u>	<u>421,547</u>	<u>4,412,306</u>
FUND BALANCES AT JUNE 30	<u>\$ 8,952,254</u>	<u>\$ 478,881</u>	<u>\$ 9,431,135</u>

TOWN OF CULPEPER, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Net Change in Fund Balances – Governmental Funds **\$ 5,018,829**

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$2,174,668 exceeded depreciation expense of \$1,643,715 in the current period. 530,953

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 200,406

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Debt principal repayment	498,974	
Changes in deferred charges on bond issuance costs	18,503	
Proceeds from bonds	<u>(5,629,000)</u>	
		(5,111,523)

Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in compensated absences	(125,331)	
Change in other post-employment benefits	(33,578)	
Change in accrued interest payable	<u>(106,816)</u>	
		<u>(265,725)</u>

Change in Net Assets – Governmental Activities **\$ 372,940**

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET ASSETS –
PROPRIETARY FUNDS

June 30, 2010

	Business-Type Activities – Enterprise Funds			
	Water Fund	Wastewater Fund	Electric Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 12,806,422	\$ 7,978,087	\$ 5,466,253	\$ 26,250,762
Receivables, net (Note 3)	386,024	403,440	1,520,251	2,309,715
Accrued interest receivable	101,267	-	-	101,267
Due from other governmental units (Note 5)	-	583,771	-	583,771
Interfund advances receivable (Note 4)	164,081	-	-	164,081
Prepays	5,789	8,060	6,279	20,128
Inventories	165,242	103,601	767,109	1,035,952
Total current assets	13,628,825	9,076,959	7,759,892	30,465,676
Noncurrent assets:				
Deferred expenses	17,701	370,706	63,362	451,769
Interfund advances receivable (Note 4)	3,705,166	-	-	3,705,166
Capital assets: (Note 6)				
Nondepreciable capital assets	1,088,329	17,308	247,094	1,352,731
Depreciable capital assets, net	6,382,296	42,150,660	8,518,686	57,051,642
Total noncurrent assets	11,193,492	42,538,674	8,829,142	62,561,308
Total assets	24,822,317	51,615,633	16,589,034	93,026,984
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	28,225	208,501	675,323	912,049
Accrued payroll and related liabilities	42,387	48,568	50,449	141,404
Accrued interest payable	44,529	301,559	152,550	498,638
Due to other governmental units	1,181,797	1,818,150	-	2,999,947
Compensated absences (Note 7)	61,388	89,361	85,559	236,308
Interfund advances payable (Note 4)	-	-	164,081	164,081
General obligation bonds (Note 7)	381,824	614,598	251,163	1,247,585
Customer security deposits	181,837	-	787,087	968,924
Total current liabilities	1,921,987	3,080,737	2,166,212	7,168,936
Noncurrent liabilities:				
Interfund advances payable (Note 4)	-	-	3,705,166	3,705,166
Other post-employment benefits (Note 14)	4,393	5,335	4,393	14,121
General obligation bonds (Note 7)	3,292,556	21,285,542	4,454,666	29,032,764
Total noncurrent liabilities	3,296,949	21,290,877	8,164,225	32,752,051
Total liabilities	5,218,936	24,371,614	10,330,437	39,920,987
NET ASSETS				
Invested in capital assets, net of related debt	3,796,245	20,267,828	4,059,951	28,124,024
Unrestricted	15,807,136	6,976,191	2,198,646	24,981,973
Total net assets	\$ 19,603,381	\$ 27,244,019	\$ 6,258,597	\$ 53,105,997

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUNDS
Year Ended June 30, 2010**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Totals
OPERATING REVENUES				
Charges for services	\$ 2,993,096	\$ 3,240,224	\$ 9,547,558	\$ 15,780,878
Penalties	24,578	24,499	25,117	74,194
Other charges	4,555	118,942	162,333	285,830
Total operating revenues	3,022,229	3,383,665	9,735,008	16,140,902
OPERATING EXPENSES				
Water treatment	1,668,935	-	-	1,668,935
Wastewater collection	-	354,081	-	354,081
Wastewater treatment	-	2,105,203	-	2,105,203
Transmission and distribution	448,452	-	1,157,644	1,606,096
Power generation	-	-	5,786,405	5,786,405
Administration	-	-	668,342	668,342
Other	7,532	56,595	71,331	135,458
Depreciation	498,430	1,100,969	823,970	2,423,369
Total operating expenses	2,623,349	3,616,848	8,507,692	14,747,889
Operating income (loss)	398,880	(233,183)	1,227,316	1,393,013
NONOPERATING REVENUES (EXPENSES)				
Interest income	277,091	49,301	3,276	329,668
Interest expense	(213,161)	(50,372)	(376,563)	(640,096)
Loss on disposal of capital assets	-	(78,740)	-	(78,740)
Tap fees	250,072	323,144	-	573,216
Net nonoperating revenue (expenses)	314,002	243,333	(373,287)	184,048
Income (loss) before transfers and capital contributions	712,882	10,150	854,029	1,577,061
TRANSFERS OUT (Note 4)	(95,097)	(101,833)	(105,215)	(302,145)
CAPITAL CONTRIBUTIONS	-	2,823,708	-	2,823,708
Change in net assets	617,785	2,732,025	748,814	4,098,624
NET ASSETS AT JULY 1, as restated (Note 15)	18,985,596	24,511,994	5,509,783	49,007,373
NET ASSETS AT JUNE 30	\$ 19,603,381	\$ 27,244,019	\$ 6,258,597	\$ 53,105,997

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2010

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Totals
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,946,687	\$ 3,357,793	\$ 9,448,665	\$ 15,753,145
Payments to suppliers	(1,296,382)	(1,468,490)	(6,420,303)	(9,185,175)
Payments to employees	(948,982)	(1,087,328)	(1,174,533)	(3,210,843)
Net cash provided by operating activities	701,323	801,975	1,853,829	3,357,127
NONCAPITAL FINANCING ACTIVITIES				
Interfund borrowing	2,750,000	-	-	2,750,000
Interfund transfer	(95,097)	(101,833)	(105,215)	(302,145)
Net cash provided by (used in) noncapital financing activities	2,654,903	(101,833)	(105,215)	2,447,855
CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(243,092)	(4,831,914)	(17,224)	(5,092,230)
Principal paid on capital debt	(383,001)	(237,910)	(238,684)	(859,595)
Interfund advance for capital items	157,041	-	(157,041)	-
Capital grant	-	2,239,937	-	2,239,937
Tap fees collected	250,072	323,144	-	573,216
Interest paid on capital debt	(187,813)	(899,083)	(364,676)	(1,451,572)
Net cash used in capital and related financing activities	(406,793)	(3,405,826)	(777,625)	(4,590,244)
INVESTING ACTIVITIES				
Interest received	280,387	49,301	3,276	332,964
Net cash provided by investing activities	280,387	49,301	3,276	332,964
Net increase (decrease) in cash and cash equivalents	3,229,820	(2,656,383)	974,265	1,547,702
CASH AND CASH EQUIVALENTS				
Beginning at July 1	9,576,602	10,634,470	4,491,988	24,703,060
Ending at June 30	\$ 12,806,422	\$ 7,978,087	\$ 5,466,253	\$ 26,250,762
RECONCILIATION TO EXHIBIT 7				
Cash and cash equivalents	\$ 12,806,422	\$ 7,978,087	\$ 5,466,253	\$ 26,250,762
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 398,880	\$ (233,183)	\$ 1,227,316	\$ 1,393,013
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	498,430	1,100,969	823,970	2,423,369
Other post-employment benefits	4,393	5,335	4,393.00	14,121
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(48,836)	(25,872)	(375,265)	(449,973)
Inventories	(69,226)	(19,448)	8,886	(79,788)
Prepays	(5,789)	(8,060)	(6,279)	(20,128)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(64,449)	(37,341)	98,258	(3,532)
Accrued payroll and related liabilities	3,208	6,545	6,753	16,506
Customer security deposits	(26,706)	-	88,922	62,216
Compensated absences	11,418	13,030	(23,125)	1,323
Net cash provided by operating activities	\$ 701,323	\$ 801,975	\$ 1,853,829	\$ 3,357,127
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ -	\$ 183,163	\$ -	\$ 183,163
Capitalized interest	\$ -	\$ 865,879	\$ -	\$ 865,879

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Culpeper, Virginia (the “Town”) was established as a Town in 1905. The Town provides a full range of municipal services, including general government administration, public safety, public works, and electric, water and wastewater utilities. The Town is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Council consists of a mayor and eight other members elected at large. The Council has responsibility for appointing the Town Manager. The Town has taxing power subject to statewide restrictions and tax limits.

The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). As required by GAAP, the financial statements of the reporting entity include those of the Town (the primary government) and its component units.

Discretely Presented Component Units:

Discretely presented component units are entities that are legally separate from the Town, but for which the Town is financially accountable, or whose relationship with the Town is such that exclusion would cause the Town’s financial statements to be misleading or incomplete. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate of the Town.

Industrial Development Authority of the Town of Culpeper

The Industrial Development Authority was established under the Industrial Development and Revenue Bond Act of the Code of the Commonwealth of Virginia and has the responsibility to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or to remain in the Town.

Parking Authority of the Town of Culpeper

The Parking Authority manages the parking facilities for the Town.

Both of the component units are governmental in nature. The statements of each are shown in their entirety in the government-wide statements. Neither issues a separate financial report.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. Major individual governmental funds and major individual enterprise 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*, as are the proprietary fund financial statements. 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 45 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 and claims and judgments, 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 have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Town reports the following major proprietary funds:

The *water fund* accounts for the activities of the Town's water distribution system.

The *wastewater fund* accounts for the activities of the Town's wastewater collection system.

The *electric fund* accounts for the activities of the Town's light and power system.

Additionally, the Town reports the following individual non-major governmental fund.

The *perpetual care cemetery fund* is a permanent fund used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's cemetery.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, wastewater, and electric enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

Following are the procedures used to establish the budgetary data reflected in the financial statements:

- 1) Prior to June 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The 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. The appropriations ordinance places legal restrictions on expenditures at the department level.
- 4) The Town Manager is authorized to transfer budget amounts within departments up to \$2,500. The appropriation for each department can be revised only by Town Council.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) The budget for the general fund is adopted on the modified accrual basis of accounting.

All appropriations which are not encumbered lapse at year end.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The Town does not calculate allowance for the water, wastewater, and electric fund due to vigorous collection policies.

H. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of parts for the water, wastewater, and electric operations and materials held for consumption, which are expensed when used.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$865,879 in interest expense was included as part of the cost of capital assets under construction in the enterprise funds.

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

Buildings and improvements	20-70 years
Machinery and equipment	5-10 years
Infrastructure	30-50 years

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

J. Deferred Expenses

Deferred expenses consist of bond related costs that are amortized using the straight-line method over the life of the related bond issue.

K. Deferred Revenues

Deferred revenues consist primarily of property taxes not collected within 45 days of year end and property taxes collected that are not yet due.

L. Compensated Absences

Town employees accumulate vacation time and sick leave depending upon their length of service. Accumulated vacation is paid upon termination. Sick leave is paid to retirees up to a maximum of 200 days at \$10 per day. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts are reported in the governmental funds only when the amounts are due and payable.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

M. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code of Virginia*, or covered by federal depository insurance.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

In accordance with the *Code of Virginia* and other applicable laws, including regulations, the Town's investment policy permits investments in treasury securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than three months from the date of purchase.

As of June 30, 2010, the Town had the following deposit and investments:

Type	Fair Value	Credit Rating	Percent of Portfolio
Demand deposits	\$ 13,409,379	NA	35.90%
Virginia LGIP	21,151,875	AAAm	56.63
State Non-Arbitrage Program (SNAP)	2,789,383	AAAm	7.47
	<u>\$ 37,350,637</u>		<u>100.00%</u>

The Town has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP which is an open-ended management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities, and towns.

Credit Risk:

As required by state statute or by the Town, the policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's or Fitch Investor's Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Standard and Poor's. Banker's acceptances and certificates of deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-ended investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated "A" or better by Moody's and Standard & Poor's.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk:

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the policy places no limit on the amount the Town may invest in any one issuer.

Interest Rate Risk:

As of June 30, 2010, 100% of the portfolio will mature in less than one year.

Custodial Credit Risk:

The policy requires that all investment securities purchased by the Town be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, investments are held in a bank’s trust department in the Town’s name.

	<u>Fair Value</u>
Cash on hand	\$ 1,350
Deposits	13,409,379
Investments	<u>23,941,258</u>
Total deposits and investments	<u>\$ 37,351,987</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 33,207,523
Cash and cash equivalents, restricted	<u>4,144,464</u>
Total deposits and investments	<u>\$ 37,351,987</u>

Restricted Amounts:

Restricted cash and cash equivalents and investments consist primarily of unused bond proceeds \$2,789,383 and amounts held for others of \$1,355,081.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 3. Receivables

Receivables for the individual funds, including applicable allowances for uncollectible accounts, are as follows:

	General	Cemetery Perpetual Care	Water	Wastewater	Electric	Total
Receivables						
Taxes	\$ 498,057	\$ -	\$ -	\$ -	\$ -	\$ 498,057
Accounts	77,334	944	386,024	403,440	1,520,251	2,387,993
Gross receivables	575,391	944	386,024	403,440	1,520,251	2,886,050
Less: allowance for uncollectibles	(77,417)	-	-	-	-	(77,417)
Net receivables	<u>\$ 497,974</u>	<u>\$ 944</u>	<u>\$ 386,024</u>	<u>\$ 403,440</u>	<u>\$ 1,520,251</u>	<u>\$ 2,808,633</u>

Note 4. Interfund Advance and Transfers

Interfund advance:

In the proprietary funds statements, an advance by the water fund to the electric fund is reported. The balance is comprised of three loans made by the water fund to the electric fund. The electric fund makes payments to the water fund annually. The loans have interest rates ranging from 3.89% to 4.00% and mature in 2027. The balances were classified as follows at June 30, 2010.

	Water	Electric
Interfund advance receivable (payable) – current	\$ 164,081	\$ (164,081)
Interfund advance receivable (payable) – current	3,705,166	(3,705,166)
	<u>\$ 3,869,247</u>	<u>\$ (3,869,247)</u>

Interfund transfers are as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water	General	\$ 95,097
Wastewater	General	101,833
Electric	General	105,215
		<u>\$ 302,145</u>

The primary purpose of these transfers are to reimburse the general fund for payments in lieu of taxes.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 5. Due To/From Other Governmental Units

Amounts due to/from other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
County of Culpeper:		
Local sales tax	\$ 174,299	\$ -
Commonwealth of Virginia:		
Water quality grant	-	583,771
Federal Government:		
FEMA – snow removal funds	<u>57,035</u>	<u>-</u>
	<u><u>\$ 231,334</u></u>	<u><u>\$ 583,771</u></u>

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
County of Culpeper:		
Termination of water purchase agreement	<u><u>\$ -</u></u>	<u><u>\$ 2,999,947</u></u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 6. Capital Assets

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 1,069,505	\$ -	\$ -	\$ 1,069,505
Construction in progress	5,533,638	-	3,800,258	1,733,380
Total capital assets, not depreciated	6,603,143	-	3,800,258	2,802,885
Capital assets, depreciated:				
Buildings and improvements	15,487,129	5,479,190	-	20,966,319
Machinery and equipment	4,190,571	393,998	-	4,584,569
Infrastructure	31,822,586	101,737	-	31,924,323
Total capital assets, depreciated	51,500,286	5,974,925	-	57,475,211
Less accumulated depreciation:				
Buildings and improvements	8,109,656	403,675	-	8,513,331
Machinery and equipment	3,097,152	368,316	-	3,465,468
Infrastructure	15,399,461	871,724	-	16,271,185
Total accumulated depreciation	26,606,269	1,643,715	-	28,249,984
Net capital assets, depreciated	24,894,017	4,331,210	-	29,225,227
Governmental activities capital assets, net	<u>\$ 31,497,160</u>	<u>\$ 4,331,210</u>	<u>\$ 3,800,258</u>	<u>\$ 32,028,112</u>

* - As restated, Note 15

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 6. Capital Assets (Continued)

Business-Type Activities	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,340,731	\$ -	\$ -	\$ 1,340,731
Construction in progress	28,129,403	12,000	28,129,403	12,000
Total capital assets, not depreciated	29,470,134	12,000	28,129,403	1,352,731
Capital assets, depreciated				
Buildings and improvements	62,228,256	32,372,734	100,000	94,500,990
Machinery and equipment	3,077,592	237,448	-	3,315,040
Total capital assets, depreciated	65,305,848	32,610,182	100,000	97,816,030
Less accumulated depreciation				
Buildings and improvements	3,6087,365	2,159,376	21,260	38,225,481
Machinery and equipment	2,274,914	263,993	-	2,538,907
Total accumulated depreciation	38,362,279	2,423,369	21,260	40,764,388
Net capital assets, depreciated	29,943,569	30,186,813	78,740	57,051,642
Business-type activities capital assets, net	<u>\$ 56,413,703</u>	<u>\$ 30,198,813</u>	<u>\$ 28,208,143</u>	<u>\$ 58,404,373</u>

* - As restated, Note 15

Depreciation expense was charged to functions/programs as follows:

Primary Government – Governmental Activities

General government administration	\$ 450,653
Public safety	98,068
Public works	1,038,075
Parks, recreation, and cultural	56,919
Total governmental activities	<u>\$ 1,643,715</u>

Primary Government – Business-Type Activities

Water	\$ 498,430
Wastewater	1,100,969
Electric	823,970
Total business-type activities	<u>\$ 2,423,369</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	\$ 7,967,892	\$ 5,629,000	\$ 498,974	\$ 13,097,918	\$ 573,108
Other post-employment benefits	-	33,578	-	33,578	-
Compensated absences	462,496	602,783	477,452	587,827	470,262
Governmental activities long-term liabilities	<u>\$ 8,430,388</u>	<u>\$ 6,265,361</u>	<u>\$ 976,426</u>	<u>\$ 13,719,323</u>	<u>\$ 1,043,370</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-Type Activities:					
General obligation bonds	\$ 31,284,657	\$ -	\$ 859,595	\$ 30,425,062	\$ 1,268,044
Bond premium	19,833	-	684	19,149	684
Loss on refunding	(211,296)	47,434	-	(163,862)	(21,143)
Other post-employment benefits	-	14,121	-	14,121	-
Compensated absences	234,985	271,110	269,787	236,308	236,308
Business-Type activities long-term liabilities	<u>\$ 31,328,179</u>	<u>\$ 332,665</u>	<u>\$ 1,130,066</u>	<u>\$ 30,530,778</u>	<u>\$ 1,483,893</u>

Governmental activities long-term liabilities are liquidated by the general fund.

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

Year Ended June 30	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 573,108	\$ 539,036	\$ 1,268,044	\$ 1,236,347
2012	591,658	517,954	1,312,147	1,186,909
2013	610,090	495,677	1,375,927	1,134,758
2014	632,687	467,532	1,430,923	1,080,615
2015	660,497	448,437	1,464,143	1,024,380
2016-2020	3,750,164	1,806,245	6,802,589	4,222,636
2021-2025	4,609,714	933,583	5,170,384	3,042,922
2026-2030	1,670,000	121,125	4,260,905	2,126,819
2031-2035	-	-	4,290,000	1,259,625
2036-2040	-	-	3,050,000	277,106
	<u>\$ 13,097,918</u>	<u>\$ 5,329,589</u>	<u>\$ 30,425,062</u>	<u>\$ 16,592,117</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General Obligation Bond	3.76%	2003	2023	\$ 4,300,000	\$ 2,164,605	\$ 1,159,295
Virginia Water Facility Revolving Fund	4.00%	2002	2022	554,139	-	402,144
General Obligation Public Improvement and Refunding Bond	4.455%	2002	2018	8,018,000	-	3,481,000
Virginia Water Facility Revolving Fund	3.75%	2003	2023	4,103,552	-	3,077,503
General Obligation Public Improvement Bond	3.89%	2007	2023	3,750,000	3,367,079	-
General Obligation Public Improvement Bond	3.25% - 4.50%	2008	2038	17,895,000	1,485,000	16,210,000
General Obligation Public Improvement and Refunding Bond	2.86%	2009	2014	676,000	452,234	113,766
General Obligation Public Improvement Bond	3.99%	2007	2027	6,250,000	-	5,981,354
General Obligation Public Improvement Bond	4.75%	2009	2029	5,629,000	5,629,000	-
					<u>\$ 13,097,918</u>	<u>\$ 30,425,062</u>

Prior Year Defeasance of Debt

In 2002, the Town defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds through their maturity date. In 2009, the Town also defeased certain bonds by issuing new debt and using the net proceeds to pay off the existing debt. The deferred costs are being amortized over the life of the new bonds as a component of interest expense. No amounts remain outstanding related to the defeased bonds.

Note 8. Net Assets/Fund Equity

Reserved Fund Balance: Reservations of fund balances reflect amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Prepaid items	\$ 53,524
Encumbrances	70,451
Veterans' memorial donations	<u>113,600</u>
Total reserved fund balance	<u>\$ 237,575</u>

TOWN OF CULPEPER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 8. Net Assets/Fund Equity (Continued)

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period.

Rt 229 Widening	\$ 1,014,000
West St. Widening	188,000
Inner Loop	240,000
Traffic Signal	150,000
YMP Skate Park	13,000
Park Property	66,000
Historic Streetscapes & Entryways	74,000
US Avenue RR Crossing	200,000
Computer Server	48,000
Cemetery Improvements	30,000
Signage Project	34,000
Depot District Landscaping	1,035,000
YMP Stream Stabilization	448,000
Drug Fund	66,900
Crosswalks	37,000
Police Building Debt Service Reserves	290,000
	<hr/>
Total designated fund balance	\$ 3,933,900

Note 9. Defined Benefit Pension Plan

Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and, if the employer elects, other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/> or obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The employer may assume this 5.00% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2010 was 14.17% of annual covered payroll. The Town's contribution rate includes the employee's share of 5.00% paid by the employer.

Annual Pension Cost

For fiscal year 2010, the Town's annual pension cost of \$701,676 was equal to the Town's required and actual contributions.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 701,676	100%	\$ -
June 30, 2009	\$ 1,019,791	100%	\$ -
June 30, 2008	\$ 1,088,591	100%	\$ -

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Town'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 Town's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 80.75% funded. The actuarial accrued liability for benefits was \$27,236,463 and the actuarial value of assets was \$21,993,140, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,243,324. The covered payroll (annual payroll of active employees covered by the plan) was \$7,090,682, and the ratio of the UAAL to the covered payroll was 73.95%.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress (Continued)

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.

Note 10. Service Contracts

Power Purchase Contracts

The Town is a participating member in the Virginia Municipal Electric Association (VMEA). The Town has entered an agreement with VMEA to purchase all of its electric power and energy requirements from VMEA. This agreement is in effect until May 31, 2031 (including up to two five year extensions). Billings are based on actual usage (demand) and costs incurred by VMEA, with an annual true-up charge as applicable to cover VMEA's costs.

Note 11. Property Taxes

Property is assessed and taxes are levied both real estate and personal property, on January 1 for the assessment date, and become a lien as of that date. Tax assessments and levy information are provided by Culpeper County. Real estate and personal property taxes are payable in one annual installment on the following January 31. The real estate tax rate for 2009 taxes due January 31, 2010 was \$.11 per \$100 of assessed value. The personal property tax rate was \$1.00 per \$100 of assessed value. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The Town bills and collects its own property taxes.

Note 12. Risk Management

The Risk Management programs of the Town are as follows:

Workers' Compensation

The Town is a member of the Virginia Municipal League (VML) Insurance Programs for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates and claims experience. Total premiums for fiscal year 2010 were approximately \$123,567.

General Liability and Other

The Town purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from VML Insurance Programs. The Town's property and contents are insured up to a limit of approximately \$78 million. The Town maintains an additional \$2,000,000 umbrella policy over all forms of liability insurance. The Town's Public Officials and Law Enforcement Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the VML Insurance Programs. Total premiums for fiscal year 2010 were approximately \$212,062.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 12. Risk Management (Continued)

Other

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

Note 13. Commitments and Contingencies

Grant Programs

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Town management believes disallowances, if any, would not be material to the financial position of the Town.

Litigation

A certain lawsuit is pending against the Town. In the opinion of the Town's management, after consulting with counsel, the potential loss, given insurance coverage, will not materially affect the Town's financial position.

Environmental

The Virginia Department of Environmental Quality (VDEQ) has issued a consent order regarding concerns with the Town's compliance with its operating permit for its wastewater treatment plant. Under this order, the Town must make repairs to or replace the liner of Cell 1 of its equalization lagoon no later than July 15, 2011. The estimated cost of this project is approximately \$400,000.

Note 14. Other Post-Employment Benefits

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The Town prospectively adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2010. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2010 liability.

Plan Description

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of Town Council, which may also amend the plan as deemed appropriate.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 14. Other Post-Employment Benefits (Continued)

Plan Description (Continued)

Participants in the Town's OPEB plan must meet the eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit. Participants must meet eligibility for retirement or disability retirement with VRS to be eligible for health benefits. In addition, retirees must have 10 years of service with the Town.

- General government – Participants must have attained age 50 with a minimum of 30 years of service.
- Law enforcement officers – Participants must have attained age 50 with a minimum of 25 years of service.

Health benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town's insurance plans.

Benefits end at the earlier of the retiree's death or attainment of age 65.

The number of participants at June 30, 2010 was as follows:

Retirees currently receiving benefits	2
Active employees	152
	<hr/>
Total	154
	<hr/> <hr/>

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis.

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For 2010 the Town's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$ 70,100
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost	70,100
Contributions made	(22,401)
	<hr/>
Increase in net OPEB obligation	47,699
Net OPEB obligation – beginning of year	-
	<hr/>
Net OPEB obligation – end of year	\$ 47,699
	<hr/> <hr/>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 14. Other Post-Employment Benefits (Continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. Since 2010 is the Town's first year for implementing GASB No. 45, the Town cannot report the same information for the preceding two years.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 70,100	31.96%	\$ 47,699

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2010 was as follows:

Actuarial Accrued Liability (AAL)	\$ 645,400
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 645,400
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 7,408,500
UAAL as a Percentage of Covered Payroll	8.71 %

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 healthcare cost trends. 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 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 type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4% discount rate and an initial annual healthcare cost trend of 8.2% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.70%. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2010 is 30 years.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 15. Restatement of Fund Balance and Net Assets

The following is a summary of the restatements of the Town's fund balance and net assets effective June 30, 2009.

	Primary Government					Discretely Presented Component Unit
	General Fund	Water Fund	Wastewater Fund	Electric Fund	Governmental Activities	Parking Authority
Fund balance/net assets, June 30, 2009, as previously reported	\$ 3,698,776	\$ 20,180,489	\$ 25,563,902	\$ 5,496,945	\$ 27,303,152	\$ 121,302
To correct understated VRS liability	(81,809)	(13,096)	(13,343)	(14,455)	(81,809)	-
To correct overstated liability for bonds held by Town	108,448	-	-	-	108,448	-
To correct understated accounts receivable	30,711	-	-	-	30,711	-
To correct deferred sales tax revenue	(94,717)	-	-	-	(94,717)	-
To record VMEA equipment previously not capitalized	-	-	-	27,293	-	-
To correct prior period cash balance	228,716	-	-	-	228,716	(103,547)
To correct for improper revenue recognition of County/Town 2007 agreement	-	(1,181,797)	(1,818,150)	-	-	-
To add previously separately reported cable commission beginning fund balance to general fund	75,634	-	-	-	75,634	-
To add NSP grant to beginning fund balance	25,000	-	-	-	25,000	-
To record cable commission beginning net capital asset balances	-	-	-	-	36,910	-
To record cable commission beginning compensated absences balances	-	-	-	-	(8,319)	-
To record capitalized interest	-	-	779,585	-	-	-
To correct capital assets for errors in additions and depreciation expense	-	-	-	-	(84,503)	-
Net change in fund balance/net assets	291,983	(1,194,893)	(1,051,908)	12,838	236,071	(103,547)
Fund balance/net assets June 30, 2009, as restated	<u>\$ 3,990,759</u>	<u>\$ 18,985,596</u>	<u>\$ 24,511,994</u>	<u>\$ 5,509,783</u>	<u>\$ 27,539,223</u>	<u>\$ 17,755</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 16. Subsequent Event

In September 2010, the Town issued \$19,925,000 in general obligation refunding bonds.

Note 17. New Accounting Standard

The Governmental Accounting Standards Board (GASB) has issued the following statement which is not yet effective.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard.

**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 2,587,782	\$ 2,587,782	\$ 3,054,303	\$ 466,521
Other local taxes	940,000	940,000	974,350	34,350
Business license tax	1,092,100	1,092,100	1,103,611	11,511
Franchise license tax	180,000	180,000	125,654	(54,346)
Bank stock tax	265,000	265,000	271,467	6,467
Cigarette tax	190,000	190,000	148,459	(41,541)
Hotel and motel room tax	220,000	220,000	256,849	36,849
Food and beverage tax	1,650,000	1,650,000	1,748,975	98,975
Local consumption tax	75,000	75,000	54,759	(20,241)
Permits, privilege fees, and regulatory license	155,300	155,300	256,426	101,126
Fines and forfeitures	126,000	126,000	166,292	40,292
Revenues from use of money and property	333,191	333,191	245,570	(87,621)
Charges for services	41,350	41,350	39,225	(2,125)
Other	283,326	283,326	401,587	118,261
Recovered costs	1,602,983	1,602,983	1,630,016	27,033
Intergovernmental	1,921,187	1,997,018	2,562,603	565,585
Total revenues	11,663,219	11,739,050	13,040,146	1,301,096
EXPENDITURES				
Current:				
General government administration				
Town council	180,615	180,615	161,598	19,017
Town manager	374,882	374,882	240,540	134,342
Town clerk	214,207	214,207	195,723	18,484
Human resources	59,910	59,910	30,330	29,580
Legal services	200,270	200,270	73,070	127,200
Independent auditor	35,680	35,680	41,041	(5,361)
Treasurer	746,153	746,153	678,956	67,197
Utility services	222,280	222,280	216,703	5,577
Risk management	129,782	129,782	83,104	46,678
Information technology	232,668	232,668	189,594	43,074
Motor pool	232,975	232,975	229,599	3,376
Electoral board	7,900	7,900	5,996	1,904
Total general government administration	2,637,322	2,637,322	2,146,254	491,068
Public safety				
Police department	4,033,895	4,109,726	3,866,967	242,759
Total public safety	4,033,895	4,109,726	3,866,967	242,759

(Continued)

The Notes to Financial Statements are
an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public works				
Public works administration	\$ 405,610	\$ 405,610	\$ 272,554	\$ 133,056
Streets	1,966,669	1,987,169	1,837,322	149,847
Refuse collection	370,206	370,206	355,518	14,688
General properties	327,685	327,685	212,962	114,723
Total public works	3,070,170	3,090,670	2,678,356	412,314
Parks, recreation, and cultural				
Parks and recreation	320,250	320,250	291,227	29,023
Cemetery	245,051	245,051	198,285	46,766
Total parks, recreation, and cultural	565,301	565,301	489,512	75,789
Community development				
Planning and zoning	418,095	424,009	400,122	23,887
Visitors center	91,983	91,983	85,810	6,173
Tourism	264,196	264,196	219,910	44,286
Economic development	100,000	100,000	100,000	-
Contributions	307,152	307,152	233,846	73,306
Community development	213,826	216,198	193,365	22,833
Total community development	1,395,252	1,403,538	1,233,053	170,485
Capital projects				
Capital projects	6,274,740	7,272,939	2,675,162	4,597,777
Debt service:				
Principal retirement	499,084	499,084	498,974	110
Interest and fiscal charges	296,579	397,588	393,527	4,061
Total debt service	795,663	896,672	892,501	4,171
Total expenditures	18,772,343	19,976,168	13,981,805	5,994,363
Excess of expenditures over revenues	(7,109,124)	(8,237,118)	(941,659)	7,295,459
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	7,000,000	7,129,000	5,629,000	(1,500,000)
Bond issuance costs	-	-	(27,991)	(27,991)
Transfers in	211,758	260,642	302,145	41,503
Total other financing sources (uses)	7,211,758	7,389,642	5,903,154	(1,486,488)
Net change in fund balances	\$ 102,634	\$ (847,476)	\$ 4,961,495	\$ 5,808,971

TOWN OF CULPEPER, VIRGINIA

ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
AND OTHER POST-EMPLOYMENT BENEFITS

June 30, 2010

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)				
DEFINED BENEFIT PLAN (VRS)						
June 30, 2009	\$ 21,993,140	\$ 27,236,463	\$ 5,243,323	80.75%	\$ 7,090,682	73.95%
June 30, 2008	\$ 21,321,041	\$ 25,391,497	\$ 4,070,456	83.97%	\$ 6,979,688	58.32%
June 30, 2007	\$ 19,181,263	\$ 23,003,166	\$ 3,821,903	83.39%	\$ 6,745,991	56.65%
OTHER POST-EMPLOYMENT BENEFITS						
June 30, 2010	\$ -	\$ 645,400	\$ 645,400	0.00%	\$ 7,408,500	8.71%

**OTHER
SUPPLEMENTARY INFORMATION**

TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET – GOVERNMENTAL FUNDS
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2010**

	Industrial Development Authority	Parking Authority	Total
ASSETS			
Cash and cash equivalents	\$ 82,325	\$ -	\$ 82,325
Receivables, net	-	3,282	3,282
	<u>82,325</u>	<u>3,282</u>	<u>85,607</u>
Total assets	<u>82,325</u>	<u>3,282</u>	<u>85,607</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	-	2,234	2,234
	<u>-</u>	<u>2,234</u>	<u>2,234</u>
Fund balances			
Unreserved	82,325	1,048	83,373
	<u>82,325</u>	<u>1,048</u>	<u>83,373</u>
Total liabilities and fund balances	<u>\$ 82,325</u>	<u>\$ 3,282</u>	<u>\$ 85,607</u> *

*There are no reconciling items to get from the modified accrual basis to the accrual basis as reported on Exhibit 1.

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2010**

	Industrial Development Authority	Parking Authority	Total
REVENUES			
Charges for services	\$ 437,705	\$ 80,580	\$ 518,285
EXPENDITURES			
Public works	-	97,287	97,287
Community development	438,233	-	438,233
Total expenditures	438,233	97,287	535,520
Excess (deficiency) of revenues over expenditures	(528)	(16,707)	(17,235)
Net change in fund balances	(528)	(16,707)	(17,235)
FUND BALANCES AT JULY 1, as restated	82,853	17,755	100,608
FUND BALANCES AT JUNE 30	\$ 82,325	\$ 1,048	\$ 83,373 *

*There are no reconciling items to get from the modified accrual basis to the accrual basis as reported on Exhibit 2.

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SUPPORTING SCHEDULE

SCHEDULE 1**TOWN OF CULPEPER, VIRGINIA****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****Year Ended June 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
<u>Virginia Department of Housing and Community Development</u>		
Community Development Block Grant/States Program	14.228	\$ 485,386
<u>DEPARTMENT OF JUSTICE</u>		
<u>Virginia Department of Criminal Justice Services</u>		
Crime Victim Assistance	16.575	39,751
Violence Against Women Formula Grant	16.588	22,508
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Virginia Department of Motor Vehicles</u>		
State and Community Highway Safety	20.607	13,856
<u>DEPARTMENT OF TRANSPORTATION</u>		
Public Assistance Grant Program	97.036	57,035
<u>ENVIRONMENTAL PROTECTION AGENCY</u>		
<u>Virginia Resources Authority</u>		
Capitalization Grants for Clean Water		
State Revolving Funds – ARRA	66.458	<u>246,310</u>
Total Expenditures of Federal Awards		<u>\$ 864,846</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Significant Accounting Policy

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

STATISTICAL SECTION

This part of the Town of Culpeper's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	1-4
Revenue Capacity These tables contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.	5-8
Debt Capacity These tables present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	9-12
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.	13-14
Operating Information These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services it provides and the activities it performs.	15-17

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Town implemented GASB Statement 34 in 2005; schedules presenting government-wide information include information beginning in that year.

TABLE 1

TOWN OF CULPEPER, VIRGINIA

NET ASSETS BY COMPONENT

Last Six Fiscal Years

(accrual basis of accounting)

	Fiscal Year					
	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Governmental Activities						
Invested in capital assets, net of related debt	\$ 21,719,577	\$ 23,576,860	\$ 21,499,768	\$ 19,617,242	\$ 26,197,634	\$ 6,674,715
Restricted	592,481	-	1,415,016	2,709,578	-	-
Unrestricted	5,600,105	3,726,292	5,849,000	6,705,638	3,716,440	4,341,347
Total governmental activities net assets	<u>\$ 27,912,163</u>	<u>\$ 27,303,152</u>	<u>\$ 28,763,784</u>	<u>\$ 29,032,458</u>	<u>\$ 29,914,074</u>	<u>\$ 11,016,062</u>
Business-Type Activities						
Invested in capital assets, net of related debt	\$ 28,124,024	\$ 22,251,714	\$ 14,111,003	\$ 21,597,950	\$ 19,258,154	\$ 16,872,733
Restricted	-	2,470,415	19,219,105	-	-	-
Unrestricted	24,981,973	26,519,207	17,729,092	23,539,073	20,958,997	16,517,095
Total business-type activities net assets	<u>\$ 53,105,997</u>	<u>\$ 51,241,336</u>	<u>\$ 51,059,200</u>	<u>\$ 45,137,023</u>	<u>\$ 40,217,151</u>	<u>\$ 33,389,828</u>
Primary Government						
Invested in capital assets, net of related debt	\$ 49,843,601	\$ 45,828,574	\$ 35,610,771	\$ 41,215,192	\$ 45,455,788	\$ 23,547,448
Restricted	592,481	2,470,415	20,634,121	2,709,578	-	-
Unrestricted	30,582,078	30,245,499	23,578,092	30,244,711	24,675,437	20,858,442
Total primary government net assets	<u>\$ 81,018,160</u>	<u>\$ 78,544,488</u>	<u>\$ 79,822,984</u>	<u>\$ 74,169,481</u>	<u>\$ 70,131,225</u>	<u>\$ 44,405,890</u>

Note: Trend data is only available for the last six fiscal years due to implementation of GASB 34

⁽¹⁾ These totals are as previously reported. A prior period adjustment was required in 2010 which modified these amounts.

TABLE 2

TOWN OF CULPEPER, VIRGINIA

CHANGES IN NET ASSETS BY COMPONENT

Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2010	2009	2008	2007	2006	2005
Expenses						
Governmental Activities:						
General government	\$ 1,257,522	\$ 1,620,482	\$ 1,179,182	\$ 1,923,079	\$ 2,052,211	\$ 2,263,864
Public safety	3,962,281	4,082,574	3,953,400	3,729,120	3,265,458	2,861,082
Public works	3,615,820	4,196,462	4,095,306	3,483,959	3,125,192	2,182,609
Health and welfare	-	11,378	5,129	6,907	7,370	7,703
Parks, recreation, and cultural	541,764	555,241	629,683	624,332	472,106	448,082
Community development	1,709,856	1,116,215	1,063,436	1,035,442	1,194,108	1,237,622
Interest on long-term debt	509,832	295,133	276,215	157,203	145,391	156,384
Total governmental activities	11,597,075	11,877,485	11,202,351	10,960,042	10,261,836	9,157,346
Business-Type Activities:						
Water	2,836,510	3,044,418	3,164,725	2,623,445	2,414,757	2,208,579
Wastewater	3,745,960	4,778,920	4,316,981	3,507,532	3,116,891	2,935,237
Electric	8,884,255	9,596,223	9,950,373	8,803,188	8,036,552	6,666,374
Total business-type activities expense	15,466,725	17,419,561	17,432,079	14,934,165	13,568,200	11,810,190
Total primary government expenses	27,063,800	29,297,046	28,634,430	25,894,207	23,830,036	20,967,536
Program Revenues						
Governmental Activities:						
Charges for services:						
Public safety	217,637	158,783	157,226	151,259	175,421	128,426
Public works	149,335	75,307	110,628	155,174	717,210	408,363
Parks, recreation, and cultural	358,254	387,853	370,169	342,453	298,384	292,739
Community development	9,678	-	-	-	-	8,090
Operating grants and contributions	2,280,820	1,744,620	2,179,593	1,579,532	1,395,768	1,376,230
Capital grants and contributions	-	-	4,479	49,458	-	85,000
Total governmental activities program revenues	3,015,724	2,366,563	2,822,095	2,277,876	2,586,783	2,298,848
Business-Type Activities:						
Charges for services:						
Water	3,022,229	2,977,336	4,706,386	4,697,202	5,630,443	4,844,933
Wastewater	3,383,665	3,243,368	5,762,559	5,671,837	6,688,333	5,464,684
Electric	9,735,008	9,824,763	9,287,602	8,339,829	7,215,153	6,375,443
Capital grants and contributions	2,823,708	817,398	2,234,966	-	-	-
Total business-type activities program revenues	18,964,610	16,862,865	21,991,513	18,708,868	19,533,929	16,685,060
Total primary government program revenues	21,980,334	19,229,428	24,813,608	20,986,744	22,120,712	18,983,908
Net (Expense) Revenue						
Governmental activities	(8,581,351)	(9,510,922)	(8,380,256)	(8,682,166)	(7,675,053)	(6,858,498)
Business-type activities	3,497,885	(556,696)	4,559,434	3,774,703	5,965,729	4,874,870
Total primary government net expense	(5,083,466)	(10,067,618)	(3,820,822)	(4,907,463)	(1,709,324)	(1,983,628)

(Continued)

TABLE 2

TOWN OF CULPEPER, VIRGINIA

CHANGES IN NET ASSETS BY COMPONENT

Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes						
Governmental Activities:						
Taxes						
Property taxes	\$ 3,159,991	\$ 2,568,973	\$ 2,379,368	\$ 1,814,074	\$ 1,657,129	\$ 1,401,475
Sales taxes	1,069,068	937,575	934,160	930,601	1,021,269	872,257
Business license tax	1,103,611	1,064,862	1,231,754	1,270,923	1,278,563	1,118,169
Franchise license tax	125,654	141,265	142,676	142,279	132,767	119,814
Motor vehicle license	-	-	19,878	255,438	248,492	221,474
Bank stock tax	271,467	235,807	209,900	259,624	270,124	218,450
Cigarette tax	148,459	177,417	183,449	193,272	196,449	203,219
Hotel and motel room tax	256,849	225,343	224,213	231,472	222,157	207,628
Food and beverage tax	1,748,975	1,762,648	1,907,318	1,940,164	1,948,458	1,536,313
Local consumption tax	54,759	62,491	62,565	61,972	61,773	50,321
Other local taxes	4,245	-	-	-	-	-
Intergovernmental revenue	230,617	230,058	257,038	240,733	235,199	262,882
Investment earnings	25,398	135,773	265,207	210,197	95,590	37,356
Gain on sale of assets	-	-	-	-	-	4,607
Other	453,053	508,078	294,056	249,801	246,002	564,369
Transfers	302,145	-	-	-	-	-
Total governmental activities	8,954,291	8,050,290	8,111,582	7,800,550	7,613,972	6,818,334
Business-Type Activities:						
Investment earnings	329,668	738,832	1,362,743	1,145,169	762,413	299,664
Other	573,216	-	-	-	-	-
Transfers	(302,145)	-	-	-	-	-
Total business-type activities	600,739	738,832	1,362,743	1,145,169	762,413	299,664
Total primary government	9,555,030	8,789,122	9,474,325	8,945,719	8,376,385	7,117,998
Changes in Net Assets						
Governmental activities	372,940	(1,460,632)	(268,674)	(881,616)	(61,081)	(40,164)
Business-type activities	4,098,624	182,136	5,922,177	4,919,872	6,728,142	5,174,534
Total primary government	\$ 4,471,564	\$ (1,278,496)	\$ 5,653,503	\$ 4,038,256	\$ 6,667,061	\$ 5,134,370

TABLE 3

TOWN OF CULPEPER, VIRGINIA

FUND BALANCES – GOVERNMENTAL FUNDS

Last Six Fiscal Years

(modified accrual basis of accounting)

	2010	2009 ⁽¹⁾	2008	2007	2006	2005
General Fund						
Reserved	\$ 237,575	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	8,714,679	3,698,776	7,298,518	6,862,521	3,890,052	4,502,307
Total general fund	<u>\$ 8,952,254</u>	<u>\$ 3,698,776</u>	<u>\$ 7,298,518</u>	<u>\$ 6,862,521</u>	<u>\$ 3,890,052</u>	<u>\$ 4,502,307</u>
All Other Governmental Funds						
Unreserved, reported in:						
Permanent fund	\$ 478,881	\$ 421,547	\$ 412,282	\$ 350,169	\$ 293,860	\$ 264,848
Total all other governmental funds	<u>\$ 478,881</u>	<u>\$ 421,547</u>	<u>\$ 412,282</u>	<u>\$ 350,169</u>	<u>\$ 293,860</u>	<u>\$ 264,848</u>

Note: Trend data is only available for the last six fiscal years.

⁽¹⁾ These totals are as previously reported. A prior period adjustment was required in 2010 which modified these amounts.

TABLE 4

TOWN OF CULPEPER, VIRGINIA

CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Last Ten Fiscal Years
(modified accrual basis of accounting)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
Taxes	\$ 7,738,427	\$ 7,145,133	\$ 7,276,554	\$ 7,126,549	\$ 7,017,270	\$ 5,961,179	\$ 5,304,918	\$ 5,044,113	\$ 5,101,993	\$ 4,773,333
Permits, privilege fees, and licenses	256,426	178,108	201,372	231,778	757,956	375,778	312,347	224,746	121,763	89,254
Fines and forfeitures	166,292	158,783	157,226	151,259	175,421	128,426	186,078	163,223	82,146	80,825
Investment earnings	249,704	356,434	493,722	418,812	303,218	237,078	280,759	126,168	170,195	279,057
Charges for services	92,425	62,041	62,613	57,188	50,010	133,693	157,829	155,288	170,737	158,358
Other	401,587	510,323	297,707	249,847	246,002	564,368	601,359	140,600	94,763	147,337
Recovered costs	1,630,016	1,544,137	1,461,127	1,168,821	758,563	703,636	622,077	554,569	467,368	495,763
Grant proceeds	-	25,090	87,655	-	-	-	-	-	-	-
Intergovernmental	2,562,603	1,949,588	2,338,101	1,869,723	1,630,967	1,724,112	1,793,912	1,461,964	1,444,182	1,390,915
Total revenues	13,097,480	11,929,637	12,376,077	11,273,977	10,939,407	9,828,270	9,259,279	7,870,671	7,653,147	7,414,842
Expenditures										
General government	2,146,254	2,583,546	2,203,714	2,188,450	1,966,866	1,790,504	1,620,458	1,369,104	1,303,062	1,114,886
Public safety	3,866,967	4,006,766	3,972,387	3,762,629	3,209,213	2,931,775	2,518,589	2,350,111	2,217,440	2,132,088
Public works	2,678,356	3,287,064	2,413,634	2,637,275	2,385,637	2,297,221	2,197,942	1,956,248	1,750,530	1,695,302
Parks, recreation, and cultural	489,512	512,386	582,890	516,086	452,943	432,798	361,605	330,906	296,693	338,233
Health and welfare	-	11,378	5,129	6,907	7,370	7,703	7,393	6,686	-	-
Community development	1,233,053	1,115,101	1,069,575	1,052,548	1,189,295	1,234,575	769,056	729,458	666,289	623,550
Capital projects	2,675,162	3,408,564	2,557,650	1,263,391	1,836,753	637,097	4,232,816	746,612	964,993	366,825
Debt service:										
Principal	498,974	835,589	406,721	399,388	388,500	376,465	263,790	303,115	233,337	217,277
Interest	393,527	299,844	273,288	168,525	148,077	159,260	127,178	17,270	120,087	134,329
Total expenditures	13,981,805	16,060,238	13,484,988	11,995,199	11,584,654	9,867,398	12,098,827	7,809,510	7,552,431	6,622,490
Excess of revenues over (under) expenditures	(884,325)	(4,130,601)	(1,108,911)	(721,222)	(645,247)	(39,128)	(2,839,548)	61,161	100,716	792,352
Other Financing Sources (Uses)										
Proceeds from borrowing	5,629,000	540,124	1,607,021	3,750,000	-	-	2,800,000	-	-	-
Proceeds from sale of assets	-	-	-	-	-	4,607	14,706	54,261	-	-
Bond issuance costs	(27,991)	-	-	-	-	-	-	-	-	-
Transfers in	302,145	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	5,903,154	540,124	1,607,021	3,750,000	-	4,607	2,814,706	54,261	-	-
Net change in fund balances	\$ 5,018,829	\$ (3,590,477)	\$ 498,110	\$ 3,028,778	\$ (645,247)	\$ (34,521)	\$ (24,842)	\$ 115,422	\$ 100,716	\$ 792,352
Debt service as a percentage of noncapital expenditures	7.89%	9.86%	6.64%	5.59%	5.83%	6.16%	5.23%	4.75%	5.67%	5.96%

TABLE 5

TOWN OF CULPEPER, VIRGINIA

ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Total Assessed Value	Total Direct Tax Rate(1)
				Real Estate	Personal Property		
2010	\$ 1,287,542,000	\$ 133,963,333	\$ 20,757,388	\$48,045,998	\$ 1,911,743	\$1,492,220,462	0.19
2009	1,785,785,500	139,139,665	22,495,201	40,564,090	1,668,322	1,989,652,778	0.15
2008	1,563,586,200	136,139,100	21,760,395	35,383,007	983,329	1,757,852,031	0.13
2007	963,769,900	142,842,648	18,341,320	19,440,651	667,460	1,145,061,979	0.16
2006	817,689,900	122,697,893	14,444,109	23,007,051	589,037	978,427,990	0.17
2005	693,113,200	101,456,447	13,660,456	29,229,543	884,246	838,343,892	0.19
2004	636,202,400	94,391,470	23,099,925	41,051,206	1,394,951	796,139,952	0.19
2003	454,810,600	96,799,579	27,810,693	25,052,826	342,211	604,815,909	0.27
2002	444,808,500	87,004,208	25,713,679	34,704,097	414,810	592,645,294	0.27
2001	437,405,700	88,271,064	23,447,534	32,914,273	377,163	582,415,734	0.28

Notes: Property is assessed at full market value. Properties are reassessed once every four years.

(1) Per \$100 of assessed value.

TABLE 6

TOWN OF CULPEPER, VIRGINIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Overlapping Rates Culpeper County	
				Real Estate	Personal Property	Real Estate	Personal Property
2010	0.11	1.00	0.80	0.11	1.00	0.65	3.50
2009	0.09	1.00	0.80	0.09	1.00	0.61	3.50
2008	0.07	1.00	0.80	0.07	1.00	0.56	3.50
2007	0.08	0.80	0.80	0.08	0.80	0.89	3.50
2006	0.09	0.80	0.80	0.09	0.80	0.89	3.50
2005	0.09	0.80	0.80	0.09	0.80	0.89	2.50
2004	0.09	0.80	0.80	0.09	0.80	0.89	2.50
2003	0.13	0.80	0.80	0.13	0.80	0.81	2.50
2002	0.15	0.80	0.80	0.15	0.80	0.92	2.50
2001	0.17	0.80	0.80	0.17	0.80	0.88	2.50

TABLE 7

TOWN OF CULPEPER, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2010 and June 30, 2005

June 30, 2010

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Society for Worldwide Interbank	Worldwide banking operation	\$ 18,183,100	1.24%
Dominion Square – Culpeper LLC	Shopping center	15,027,500	1.03%
Walmart Real Estate Business Trust	Retail/grocery store	12,718,200	0.87%
Continental 181 Fund, LLC	Brake pad manufacturer	11,387,400	0.78%
Southridge/Culpeper, L.P.	Multi-family housing	8,213,300	0.56%
Culpeper Shopping Center Joint Venture	Shopping center	7,472,900	0.51%
Masco Builder Cabinet Group	Cabinet manufacturer	7,302,200	0.50%
Culpeper House LTD Partnership	Multi-family housing	6,756,300	0.46%
Culpeper Commons, L.P.	Multi-family housing	6,727,400	0.46%
Medical Facilities of America XVI	Nursing home and elderly care	6,712,900	0.46%

June 30, 2005

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Society for Worldwide Interbank	Worldwide banking operation	\$ 13,613,500	1.22%
Dominion Square – Culpeper LLC	Shopping center	13,343,400	1.20%
Walmart Real Estate Business Trust	Retail/grocery store	11,178,000	1.00%
Culpeper Commons, L.P.	Multi-Family housing	8,426,600	0.76%
Medical Facilities of America XVI	Nursing home and elderly care	6,803,500	0.61%
Culpeper Shopping Center Joint Venture	Shopping center	5,435,100	0.49%
Southridge/Culpeper, L.P.	Multi-Family housing	4,843,200	0.43%
Sign of the Goldfish LLC	Building supply company	4,620,500	0.41%
Culpeper House LTD Partnership	Multi-Family housing	4,264,100	0.38%
Merillat Corporation	Cabinet manufacturer	4,259,700	0.38%

TABLE 8

TOWN OF CULPEPER, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Current Tax Collections	Percentage of Levy	Delinquent Tax Collections	Total Tax Collections	Percentage of Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Levy
2010	\$ 2,869,395	\$ 2,834,635	98.79%	\$ -	\$ 2,834,635	98.79%	\$ 223,773	7.80%
2009	2,823,203	2,534,180	89.76%	112,132	2,646,312	93.73%	283,471	10.04%
2008	2,392,938	2,282,979	95.40%	32,542	2,315,521	96.76%	215,101	8.99%
2007	1,807,196	1,781,320	98.57%	32,932	1,814,252	100.39%	94,159	5.21%
2006	1,624,710	1,567,012	96.45%	23,148	1,590,160	97.87%	101,454	6.24%
2005	1,585,440	1,562,953	98.58%	48,412	1,611,365	101.64%	104,261	6.58%
2004	1,533,742	1,490,096	97.15%	27,609	1,517,705	98.95%	89,081	5.81%
2003	1,619,076	1,545,834	95.48%	59,057	1,604,891	99.12%	115,221	7.12%
2002	1,610,210	1,561,918	97.00%	50,848	1,612,766	100.16%	104,998	6.52%
2001	1,635,950	1,562,672	95.52%	52,403	1,615,075	98.72%	107,054	6.54%

Source: Tax Records of the Town.

TABLE 9

TOWN OF CULPEPER, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities	Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General	General Obligation Bonds						
	Obligation Bonds	Water Bonds	Wastewater Bonds	Electric Bonds	Capital Leases			
2010	\$ 13,097,918	\$ 3,838,241	\$ 21,883,681	\$ 4,703,140	\$ -	\$ 43,522,980	5.81%	\$ 3,103
2009	7,968,892	4,029,785	22,116,712	4,926,862	-	39,042,251	3.87%	2,788
2008	8,263,350	4,350,660	22,326,685	5,039,291	38,180	40,018,166	5.27%	2,582
2007	7,065,072	4,453,548	4,155,951	1,540,470	98,327	17,313,368	1.72%	1,117
2006	3,714,465	4,946,731	4,415,642	1,749,693	155,724	14,982,255	1.71%	1,060
2005	4,102,966	5,407,174	4,654,492	1,944,778	169,433	16,278,843	2.11%	1,255
2004	4,479,431	4,846,938	4,451,542	2,133,853	83,413	15,995,177	2.37%	1,405
2003	1,943,221	6,299,342	1,468,396	748,728	-	10,459,687	3.50%	981
2002	2,183,182	6,387,967	958,020	1,087,451	-	10,616,620	3.92%	1,099
2001	2,411,130	6,791,541	674,803	1,227,526	-	11,105,000	4.79%	1,149

Table 10

TOWN OF CULPEPER, VIRGINIA

RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds		
2010	\$ 13,097,918	0.88%	\$ 934
2009	7,968,892	0.40%	521
2008	8,263,350	0.47%	533
2007	7,065,072	0.62%	456
2006	3,714,465	0.38%	263
2005	4,102,966	0.49%	316
2004	4,479,431	0.56%	394
2003	1,943,221	0.32%	182
2002	2,183,182	0.37%	226
2001	2,411,130	0.41%	250

TABLE 11

TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Debt limit	\$ 133,558,800	\$ 178,578,550	\$ 156,358,620	\$ 96,376,990	\$ 81,768,970	\$ 69,311,320	\$ 63,620,240	\$ 45,481,060	\$ 44,480,850	\$ 43,740,570
Total net debt applicable to limit	<u>13,097,918</u>	<u>7,967,892</u>	<u>8,242,832</u>	<u>7,065,072</u>	<u>3,714,465</u>	<u>4,102,966</u>	<u>4,479,431</u>	<u>1,943,221</u>	<u>2,183,182</u>	<u>2,411,130</u>
Legal debt margin	<u>\$ 120,460,882</u>	<u>\$ 170,610,658</u>	<u>\$ 148,115,788</u>	<u>\$ 89,311,918</u>	<u>\$ 78,054,505</u>	<u>\$ 65,208,354</u>	<u>\$ 59,140,809</u>	<u>\$ 43,537,839</u>	<u>\$ 42,297,668</u>	<u>\$ 41,329,440</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>9.81%</u>	<u>4.46%</u>	<u>5.27%</u>	<u>7.33%</u>	<u>4.54%</u>	<u>5.92%</u>	<u>7.04%</u>	<u>4.27%</u>	<u>4.91%</u>	<u>5.51%</u>

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	<u>\$ 1,335,587,998</u>
Debt limit (10% of assessed value)	\$ 133,558,800
Less debt applicable to limit:	
General obligation bonds	<u>13,097,918</u>
Legal debt margin	<u>\$ 146,656,718</u>

TABLE 12

TOWN OF CULPEPER, VIRGINIA

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2010	\$16,140,902	\$12,324,520	\$ 3,816,382	\$ 859,595	\$ 1,502,738	1.62
2009	15,809,954	13,582,280	2,227,674	818,487	1,503,188	0.96
2008	15,257,033	13,149,773	2,107,260	1,018,056	904,037	1.10
2007	13,869,844	11,975,771	1,894,073	1,006,821	692,278	1.11
2006	12,400,199	10,864,048	1,536,151	859,626	549,582	1.09
2005	10,579,230	9,110,547	1,468,683	959,607	824,837	0.82
2004	9,316,585	9,039,757	276,828	716,938	425,921	0.24
2003	8,587,219	7,241,738	1,345,481	1,149,502	400,091	0.87
2002	8,471,934	6,365,901	2,106,033	8,286,811	330,342	0.24
2001	8,134,289	5,901,756	2,232,533	516,717	501,884	2.19

Notes: Details regarding the Town's outstanding debt can be found in the Notes to Financial Statements.
Operating expenses do not include depreciation, interest, or amortization expenses.

TABLE 13**TOWN OF CULPEPER, VIRGINIA****DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years**

Fiscal Year Ended	Population	Personal Income	Median Income	Median Age	School Enroll	Unemployment Rate
2010	14,028	\$ 749,221,044	\$ 63,250	38	3,682	8.00%
2009	14,003	740,337,000	62,500	38	3,036	7.40%
2008	13,527	758,725,500	61,500	38	2,811	5.10%
2007	12,868	1,009,050,000	65,100	35	2,445	3.20%
2006	11,882	877,014,700	62,050	37	2,357	3.20%
2005	10,956	770,418,000	59,400	35	2,357	3.20%
2004	10,289	676,150,200	59,400	35	2,357	3.60%
2003	10,038	534,002,040	50,094	35	2,307	3.30%
2002	9,847	461,977,856	47,804	35	2,035	3.30%
2001	9,698	444,901,568	46,037	34	2,092	1.60%

Source: Census Data and Town of Culpeper Planning Department.

TABLE 14

TOWN OF CULPEPER, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Five Years Ago

June 30, 2010

	Employer	Product/Service	Total Estimated Employees	Percent of Workforce
1	Culpeper County Schools	Public Agency	1490	7.4%
2	Culpeper Regional Hospital	Health Care	600	3.0%
3	Walmart	Commercial Retailer	598	3.0%
4	County of Culpeper Government	Public Agency	583	2.0%
5	Continental Automotive	Factory	316	1.6%
6	VA Department of Transportation (VDOT)	Public Agency	250	1.3%
7	CINTAS	Service Business	265	1.3%
8	Culpeper Health and Rehabilitation Center	Health Care	175	0.87%
9	Town of Culpeper	Public Agency	154	0.76%
10	Merchants Grocery Co., Inc.	Wholesaler	152	0.75%

June 30, 2005*

	Employer	Product/Service	Total Estimated Employees	Percent of Workforce
1	Culpeper County Schools	Public Agency	1183	6.4%
2	VA Department of Transportation (VDOT)	Public Agency	722	4.1%
3	Culpeper Regional Hospital	Health Care	600	3.3%
4	Walmart	Commercial Retailer	438	2.8%
5	County of Culpeper Government	Public Agency	400	1.9%

Source: Planning Department, Town of Culpeper, Virginia.

* Only information for top five employers was available for 2005

TABLE 15

TOWN OF CULPEPER, VIRGINIA

FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION

June 30, 2010

Function	2010	2009	2008
General Government			
Management services (includes council = 4.5)	7	7	7.5
Finance	9.5	8.5	9.5
Planning	3	4	4
Building	1	0.5	0
Other (including Clerk, Information Technology, Engineering, Tourism)	11	12.5	10.5
Public Safety			
Officers	41	40	46
Civilians	8	5	6
Public Works			
Refuse collection	5	5	5
Streets	13	13	14
Other	5	5	4
Parks and Recreation			
Parks	6.5	6.5	6.5
Other	3	3	3
Water and Wastewater Operations	23	31	30
Electric Operations	18	16.5	20.5

Note: No information available prior to 2008.

TABLE 16

TOWN OF CULPEPER, VIRGINIA

OPERATING INDICATORS BY FUNCTION

June 30, 2010

Function	2010	2009	2008
Public Safety			
Traffic violations	4,086	4,149	5,242
Parking violations	2,530	3,265	3,391
Arrests	499	-	-
Total crimes	1,845	1,654	494
Public Works			
Street paving – crack sealant in pounds	30,000	30,000	-
Street paving – milling in sq. yds.	33,347	17,870	-
Street paving – bituminous concrete in tons	4,839	6,645	-
Recycling – cardboard in pounds	90,460	74,000	83,000
Recycling – newspaper in pounds	-	18,500	28,390
Water Operations			
Number of service connections	6,466	6,439	6,371
Average daily consumption in gallons	1,700,000	2,000,000	2,200,000
Maximum daily capacity of plant in gallons	4,000,000	4,000,000	4,000,000
Wastewater Operations			
Number of service connections	6,190	6,184	6,069
Average daily consumption in gallons	3,000,000	2,400,000	2,770,000
Maximum daily capacity of plant in gallons	6,000,000	4,000,000	4,000,000
Electric Operations			
Number of service connections	4,987	4,921	4,885
Average monthly consumption in kilowatt-hours	1,466	1,592	
Highest system peak demand in megawatts	25.70	25.22	28.00

Note: No information available prior to 2008.

TABLE 17

TOWN OF CULPEPER, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION

June 30, 2010

Function	2010	2009	2008
Public Safety			
Stations	1	1	1
Number of patrol units	33	29	32
Public Works			
Streets (miles)	62	62	58
Street & yard lights	1,133	1,175	1,175
Traffic signals	15	14	14
Water Operations			
Miles of water main	99	99	98
Number of fire hydrants	678	678	638
Wastewater Operations			
Miles of sanitary sewer	95	95	95
Miles of storm sewer	20	20	20
Number of treatment plants	1	1	1
Number of pumping stations	9	9	9
Electric Operations			
Miles of overhead lines (miles)	11	11	11
Miles of underground lines (miles)	19	19	19
Number of sub-stations (115 kV)	1	1	1
Number of delivery points (34.5 kV)	1	2	2

Note: No information available prior to 2008.

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COMPLIANCE SECTION

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

To the Honorable Members of Town Council
Town of Culpeper, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia, as of and for the year ended June 30, 2010 which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 30, 2010. 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards & Commissions*, 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 the Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 10-1 and 10-2 to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is further described in the accompanying schedule of findings and questions costs as Item 10-4.**

We noted certain matters that we reported to management of the Town in a separate letter dated November 30, 2010.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the Town, state and federal awarding agencies, pass-through entities, and Town Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2010

**INDEPENDENT AUDITOR'S 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***

To the Honorable Members of Town Council
Town of Culpeper, Virginia

Compliance

We have audited the Town of Culpeper, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The Town's major federal program is 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 Town's management. Our responsibility is to express an opinion on the Town'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 Town'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 on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as Item 10-3.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. **Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.**

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

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

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the Town, federal awarding agencies and pass-through entities, and Town Council and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2010

TOWN OF CULPEPER, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

As more fully described in the 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*, we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Two significant deficiencies** relating to the audit of the financial statements were reported in the 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*. These significant deficiencies **were determined to be material weaknesses**.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's 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*.
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding relating to the major program**.
7. The program tested as a major program is:

Community Development Block Grant/States Program	14.228
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8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The Town was **not** determined to be a **low-risk auditee**.

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to payroll, accounts payable, accounts receivable, and cash disbursements.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management has taken steps to address the separation of duties issue by hiring more staff and examining functions that employees perform for possible conflicting duties. Due to the size of the organization, a complete separation of duties is not possible; however, management is trying to correct any deficiencies that are not cost prohibitive.

10-2: Financial Reporting Controls (Material Weakness)

Condition:

As more fully discussed in the letter on internal control matters, during our testing, we noted a significant number of control deficiencies over the financial reporting process of the Town. These deficiencies resulted in material audit adjustments and are summarized as follows:

- There are no internal reviews over various financial system updates, changes, journal entries, or billing reports.
- The trial balance is not reviewed for accuracy or completeness and is not reconciled to subsidiary ledgers.
- There were significant issues with the bank reconciliation process which caused cash to be materially misstated.
- We detected unrecorded balances and errors related to cash, investments, due from other governments, capital assets, accounts payable, debt, debt service expenditures, and transfers.
- Inadequate controls over recordkeeping of capital assets.
- Inadequate controls over accounts payable.
- Improper accounting for debt related items.
- Inadequate access controls over information technology systems.

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

10-2: Financial Reporting Controls (Material Weakness) (Continued)

Condition: (Continued)

These adjustments had the following effects on net assets/fund balance:

	<u>Prior Period</u>	<u>Current Period</u>	<u>Total</u>
Governmental Activities	\$ 236,071	\$ 469,607	\$ 705,678
General Fund	291,983	3,291,617	3,583,600
Cemetery Fund	-	78,627	78,627
Water Fund	(1,194,893)	(23,438)	(1,218,331)
Wastewater Fund	(1,051,908)	3,289,827	2,237,919
Electric Fund	12,838	(124,511)	(111,673)
Parking Authority	(103,547)	(1,103)	(104,650)

Recommendation:

The Town should implement steps to improve its financial reporting process. Specific recommendations are included in the letter on internal control matters.

Management's Response:

The auditee concurs with this recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

10-3: Community Development Block Grant/State's Program – CFDA 14.228

Condition:

We noted there was a reimbursement requested on December 4, 2009 and received on December 28, 2009 that was not disbursed until March 23, 2010.

Recommendation:

We recommend that invoices are paid with funds received within the five-day period requirement.

Management's Response:

The auditee concurs with this recommendation.

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

10-4: Identification of Public Funds

Condition:

We noted one bank account at the IDA that was not identified as public funds by the financial institution as required by the *Code of Virginia*. All accounts, regardless of the amount on deposit in the account, should be identified as public.

Recommendation:

Management should request that the bank identify these deposits as public funds.

Management's Response:

The auditee concurs with this recommendation.