

TOWN OF CULPEPER, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2011

TREASURER'S OFFICE

TOWN OF CULPEPER, VIRGINIA
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INTRODUCTORY SECTION

TOWN OF CULPEPER

400 South Main Street, Suite #109
Culpeper, Virginia 22701
(540) 829-8220 • FAX (540) 829-8239

Treasurer's
Office



December 23, 2011

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, 2011. This report was audited by the independent certified public accounting firm of Brown Edward & Company, 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 several years for the Town, but population grew at a considerably slower rate during FY09 to FY11. Certificates of Occupancy (COs) are the Town's most definitive measure of current population growth and for each fiscal year FY03 through FY11, COs totaled 146, 302, 607, 469, 223, 130, 45, 16 and 46 respectively. The peak occurred in FY05 (607), with a corresponding single-year population increase of 12% or 1,500 persons.¹ Although the FY09 thru FY11 period showed a marked reduction from prior years and a significant drop-off in FY10 with only 16 issued, FY11 has shown an increase in CO's (46) and perhaps reflects some improvements in the local economy.

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 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 number of zoning permits issued for FY11 totaled 254 and building permits totaled 96 for a combined total of 350.

The Town is positioned in the D.C./Northern Virginia growth ring for a potentially steady population increase during the next two decades. This growth trend is changing the face of the Town to that of 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, overall, upbeat. The Town remains a primary commercial and service area of Culpeper County and its neighboring counties. The Town is fortunate to be able to rely on such elastic revenue sources as sales tax and meals and lodging taxes as income for assistance with balancing the governmental fund budget.

The Town faces many challenges in the coming years to address the demands on capital facilities and operations of a growing population. The Town and County have worked diligently over the past few years in their ongoing discussion of water and sewer services outside Town boundaries. During FY11, the Town and County came to agreement on a boundary line adjustment and held public hearings that resulted in passage of the agreement. The agreement was reviewed by the Commission on Local Government in September 2011, including a local public hearing held by that body. The Commission approved the agreement and a joint Town-County public hearing is scheduled for January 2012. Implementation of the agreement is slated for July 1, 2012.

MAJOR INITIATIVES IN FY11

FY11 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:

- Water Supply - The Town began early-stage work to identify additional and supplemental sources of water and is working with a company to identify well sites within the County. This project will continue into FY12 and FY13.
- 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 Streetscapes and Entryways Project that will be funded 80% by VDOT Enhancement Grant money. The Town stands ready to begin construction on Phases I & II as soon as VDOT approves the plans.

¹ Each average household = 2.48 persons

- Automated Meter Reading - This project is funded by the Water Fund, WasteWater Fund, and the Light & Power Fund. We are collecting \$1.00 for each water & sewer meter and \$1.50 for each electric meter as 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. Contract award was made in FY11 and work began on project implementation during FY11 and will continue thru FY12. Project completion is anticipated in FY13.
- 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. The Town implemented online payment for taxes and utility billing and will make enhancements to that service in FY12. Payment-by-phone was added in FY11 for those individuals that cannot make online payments. Budget billing for utilities is planned for implementation in FY12.

MAJOR INITIATIVES IN THE FUTURE

FY12 brings a continued focus on improvement of Town operations and planning for a growing community.

- The Town began work in FY10 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 & 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. This process will be ongoing with updates and enhancements each year based on local, regional and national economic conditions. FY12 will represent the first year of actual work within the plan and the Town plans a bond sale in July 2011 that will be used to fund capital projects including transportation, administrative facilities, computer upgrades and vehicle and equipment replacement.
- With the recent completion of a major upgrade to the WPCF to comply with the Chesapeake Bay Act and to increase capacity, our focus on wastewater system improvements will focus more heavily on inflow and infiltration (I&I) reduction in the collection system. An evaluation and report was completed in FY11 which identified 25 manholes in need of repair along the main truck sewer leading to the WPCF. Repairing these manholes is the most cost effective means of reducing Inflow & Infiltration identified to date. Our focus on water system improvements will focus on increasing our water supply and improving service. In FY11 groundwater investigation has identified approximately 1 million gallons per day (MGD) of high quality groundwater source. Securing these new sources is currently underway as well as additional exploration with a total new source target of 3 MGD. Additionally, in FY11 projects were initiated to improve water pressure in the higher elevations of Town, deployment of an automatic meter reading system and modifications to the existing dams to comply with new dam regulations. Work on these projects will continue in FY12.
- Transportation and related projects will be a major focus in the future. The Town is actively working with VDOT on several transportation improvement projects.
- Economic Development, Business Retention and Business Attraction are major initiatives for the Town and will involve a multi-disciplinary approach. The downtown businesses and businesses outside the historic district will all be part of a planned approach of economic development.

- Infrastructure Maintenance and Improvements are critical for any business and is a prime focus for the Town. This not only includes the Town's water and wastewater system and electrical system, but also its buildings, equipment and vehicles. Due to the economy many upgrades and repairs were put off for future consideration but with the Town's efforts in development of a Financial Master Plan, these areas are now back in focus and being addressed.

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.

The Treasurer's 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 2011:

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, 2010 and it is our goal to achieve this award again for fiscal year ended June 30, 2011. 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

The Town utilizes a number of methods to secure payment of back taxes and overdue utilities, including DMV-Stops (license renewal is blocked until past due amounts are paid), warrants-in-debt and property liens. The Treasurer's office will be exploring options to turn over unpaid real estate taxes to an outside firm as allowed in state code section 58.1-3965.

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 has enhanced 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. Online payment services and payment-by-phone services were implemented in FY11. FY12 will see continued enhancements for payment and customer services including the implementation of budget billing for utility customers.

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 of 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.

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. 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.

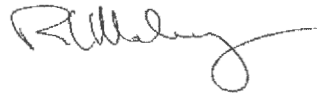
Awards. The Government Finance Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Culpeper for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2010. The Certificate of achievement is 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 all of the departments of the Town of Culpeper. 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, 2010

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.



Linda C. Sandison

President

Jeffrey R. Evers

Executive Director

TOWN OF CULPEPER, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

TOWN COUNCIL

Calvin L. Coleman, Jr., Mayor
William M. Yowell, Vice-Mayor

Daniel V. Boring
Benjamin P. Phillips
Frank Reaves, Jr.
Robert M. Ryan

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

APPOINTED OFFICIALS

TOWN MANAGER

Jeffrey B. Muzzy

TOWN CLERK

Kimberly D. Allen

TREASURER/DIRECTOR OF FINANCE

Ronald L. Mabry

TOWN ATTORNEY

Robert W. Bendall

DEPARTMENT HEADS

DIRECTOR OF LIGHT AND POWER

Michael Stover – Interim

DIRECTOR OF PUBLIC WORKS

Robert H. Thornhill, Jr.

CHIEF OF POLICE

Chris Jenkins

**DIRECTOR OF PLANNING AND
COMMUNITY DEVELOPMENT**

Patrick Mulhern

INFORMATION SYSTEMS DIRECTOR

Tonya Estes

TOURISM DIRECTOR

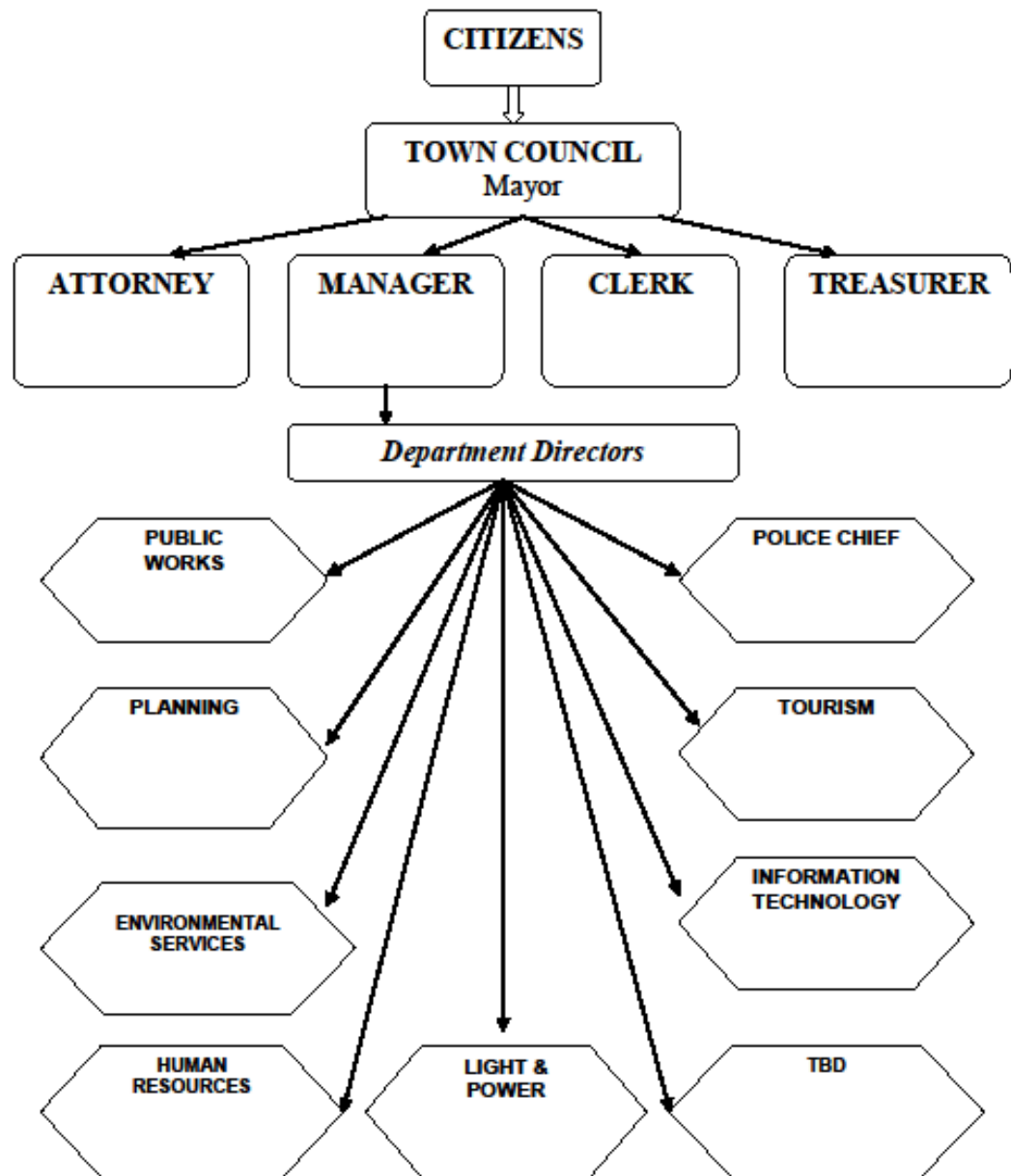
Lori Sorrenino – Interim

ENVIRONMENTAL SERVICES DIRECTOR

Chris Hively

TOWN OF CULPEPER, VIRGINIA

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, 2011, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, 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, as listed in the table of contents, 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
December 23, 2011

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, 2011 and 2010. 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 \$80,608,955 (net assets). Of this amount, \$36,620,718 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$409,205, which is primarily attributable to a decrease in Grant funding for a DEQ project for the Wastewater Plant. This decrease is also attributed to an increase in interest expense in all the Enterprise Funds, Water, Wastewater and Electric. In fiscal year 2010 the town issued additional general obligation bonds, therefore the additional money increased principal and interest payments.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$9,507,451, an increase of \$76,316 in comparison with the prior year. Approximately 42% of this total amount, \$4,000,756 or 29% of total general fund expenditures is available for spending at the government's discretion (unassigned fund balance).
- The Town's total debt decreased by \$1,481,520 (3.4%) during the current fiscal year due to debt service pay down.

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 \$80,608,955 at the close of the most recent fiscal year.

Government-Wide Financial Analysis (Continued)

A portion of the Town's net assets, \$47,071,732 (58.3%), 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, \$542,416 (.7%), is restricted for the cemetery fund. The remaining balance of *unrestricted net assets* (41%) may be used to meet the government's ongoing obligations to citizens and creditors.

	The Town's Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 12,285,598	\$ 11,986,528	\$ 28,131,777	\$ 30,753,364	\$ 40,417,375	\$ 42,739,892
Capital assets	31,532,510	32,028,112	56,802,314	58,404,373	88,334,824	90,432,485
Total assets	43,818,108	44,014,640	84,934,091	89,157,737	128,752,199	133,172,377
Long-term liabilities	11,991,925	12,675,953	28,146,422	29,046,885	40,138,347	41,722,838
Current liabilities	3,689,903	3,426,524	4,314,994	7,004,855	8,004,897	10,431,379
Total liabilities	15,681,828	16,102,477	32,461,416	36,051,740	48,143,244	52,154,217
Net assets						
Invested in capital assets, net of related debt	19,124,836	21,719,577	24,320,985	28,124,024	43,445,821	49,843,601
Restricted	542,416	592,481	-	-	542,416	592,481
Unrestricted	8,469,028	5,600,105	28,151,690	24,981,973	36,620,718	30,582,078
Total net assets	\$ 28,136,280	\$ 27,912,163	\$ 52,472,675	\$ 53,105,997	\$ 80,608,955	\$ 81,018,160

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 decreased by \$409,205, or .3%, during the current fiscal year. A key element of this change is a decrease in a DEQ grant related to Wastewater treatment plant upgrades. Another element for the decrease is attributed to an increase of interest expense, which is a result of general obligation bond issue done in fiscal year 2010.

Governmental Activities – Governmental activities increased the Town's net assets by \$224,117. A key element of this increase is transfer of payments in lieu of taxes from the Enterprise funds. Another element is a decrease in expenditures in Public Works and Long-term debt interest.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

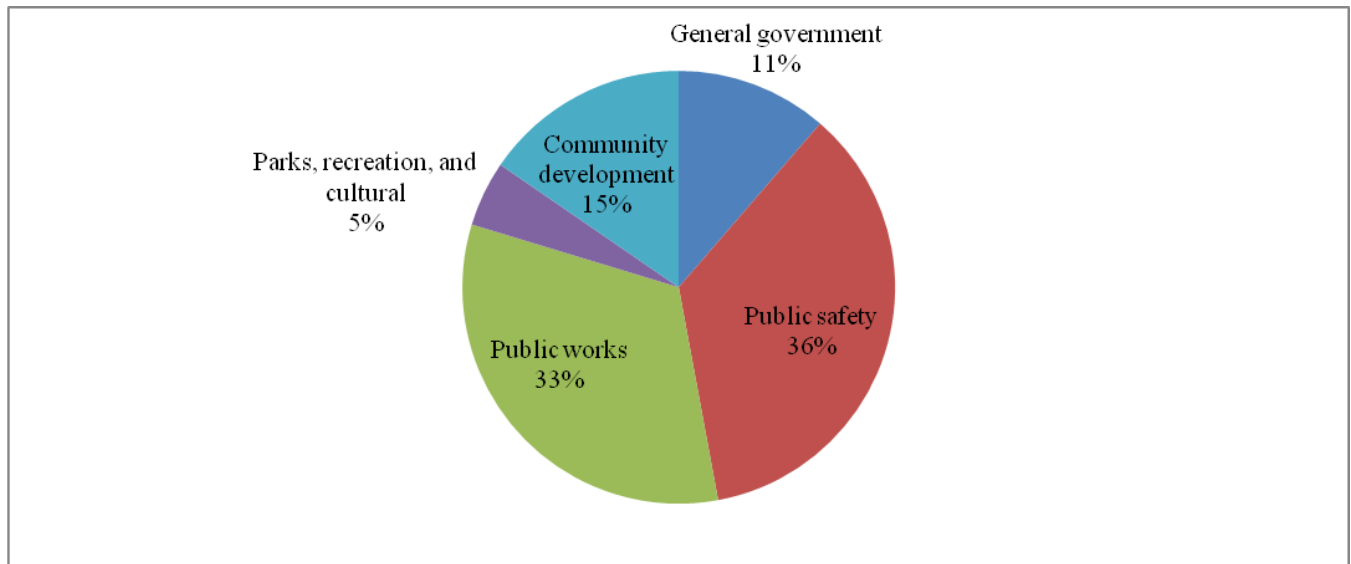
Business-type Activities – Business-type activities decreased the Town’s net assets by \$633,322. Key elements of this increase are as follows:

A key element for the decrease in net assets is a decrease in revenue with a decrease Enterprise Fund/ Wastewater grant from DEQ for major upgrades to the wastewater treatment plant. Another element for the decrease is an increase in interest expense for in all the Enterprise Funds due to a bond issuance in fiscal year 2010.

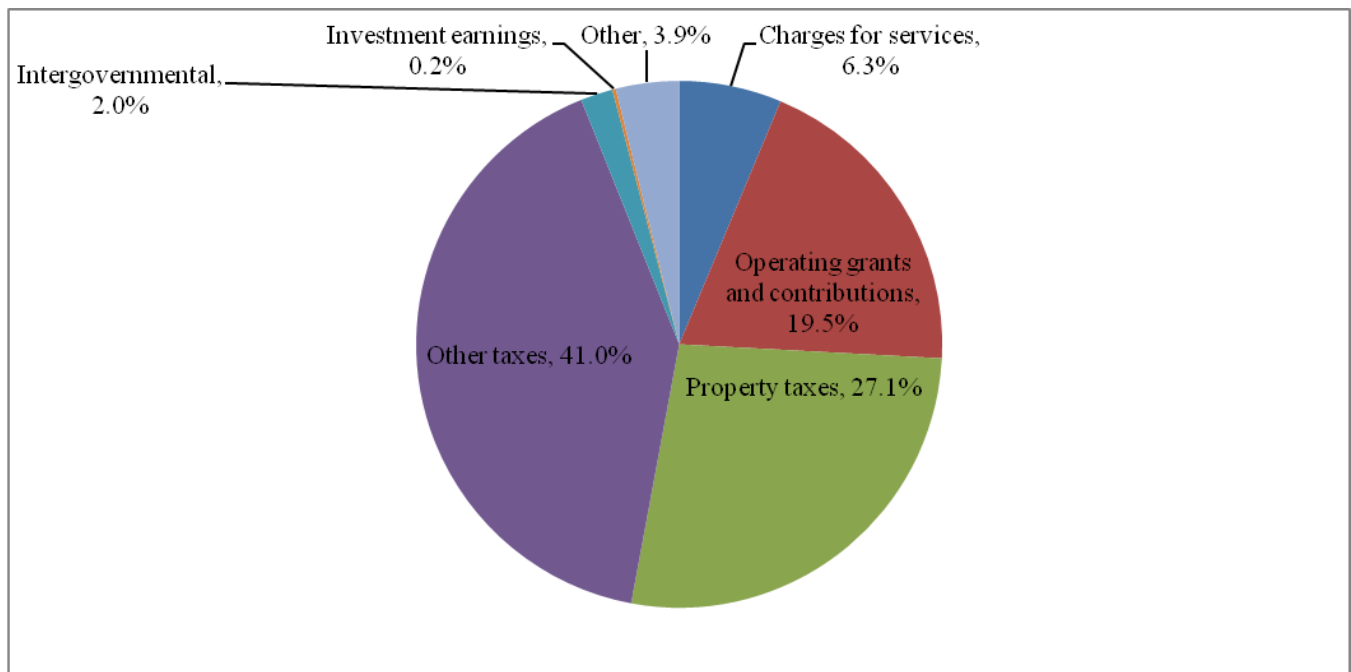
The Town’s Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	\$ 808,347	\$ 734,904	\$ 16,778,283	\$ 16,140,902	\$ 17,586,630	\$ 16,875,806
Operating grants and contributions	2,527,695	2,280,820	-	-	2,527,695	2,280,820
Capital grants and contributions	-	-	11,806	2,823,708	11,806	2,823,708
General revenues						
Property taxes	2,757,576	3,159,991	-	-	2,757,576	3,159,991
Other taxes	4,716,652	4,783,087	-	-	4,716,652	4,783,087
Intergovernmental revenue unrestricted	285,193	230,617	-	-	285,193	230,617
Investment earnings	22,309	25,398	252,103	329,668	274,412	355,066
Other	163,583	453,053	1,252,125	573,216	1,415,708	1,026,269
Total revenues	<u>11,281,355</u>	<u>11,667,870</u>	<u>18,294,317</u>	<u>19,867,494</u>	<u>29,575,672</u>	<u>31,535,364</u>
Expenses						
General government	1,337,825	1,257,522	-	-	1,337,825	1,257,522
Public safety	4,014,472	3,962,281	-	-	4,014,472	3,962,281
Public works	3,230,087	3,615,820	-	-	3,230,087	3,615,820
Health and welfare	-	-	-	-	-	-
Parks, recreation, and cultural	581,190	541,764	-	-	581,190	541,764
Community development	1,854,682	1,709,856	-	-	1,854,682	1,709,856
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	338,982	509,832	-	-	338,982	509,832
Water	-	-	2,989,018	2,836,510	2,989,018	2,836,510
Wastewater	-	-	5,480,065	3,745,960	5,480,065	3,745,960
Electric	-	-	10,158,556	8,884,255	10,158,556	8,884,255
Total expenses	<u>11,357,238</u>	<u>11,597,075</u>	<u>18,627,639</u>	<u>15,466,725</u>	<u>29,984,877</u>	<u>27,063,800</u>
Excess (deficiency) before transfers	(75,883)	70,795	(333,322)	4,400,769	(409,205)	4,471,564
Transfers	<u>300,000</u>	<u>302,145</u>	<u>(300,000)</u>	<u>(302,145)</u>	<u>-</u>	<u>-</u>
Change in net assets	224,117	372,940	(633,322)	4,098,624	(409,205)	4,471,564
Net assets – July 1	<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>
Net assets – June 30	<u>\$28,136,280</u>	<u>\$27,912,163</u>	<u>\$52,472,675</u>	<u>\$53,105,997</u>	<u>\$80,608,955</u>	<u>\$81,018,160</u>

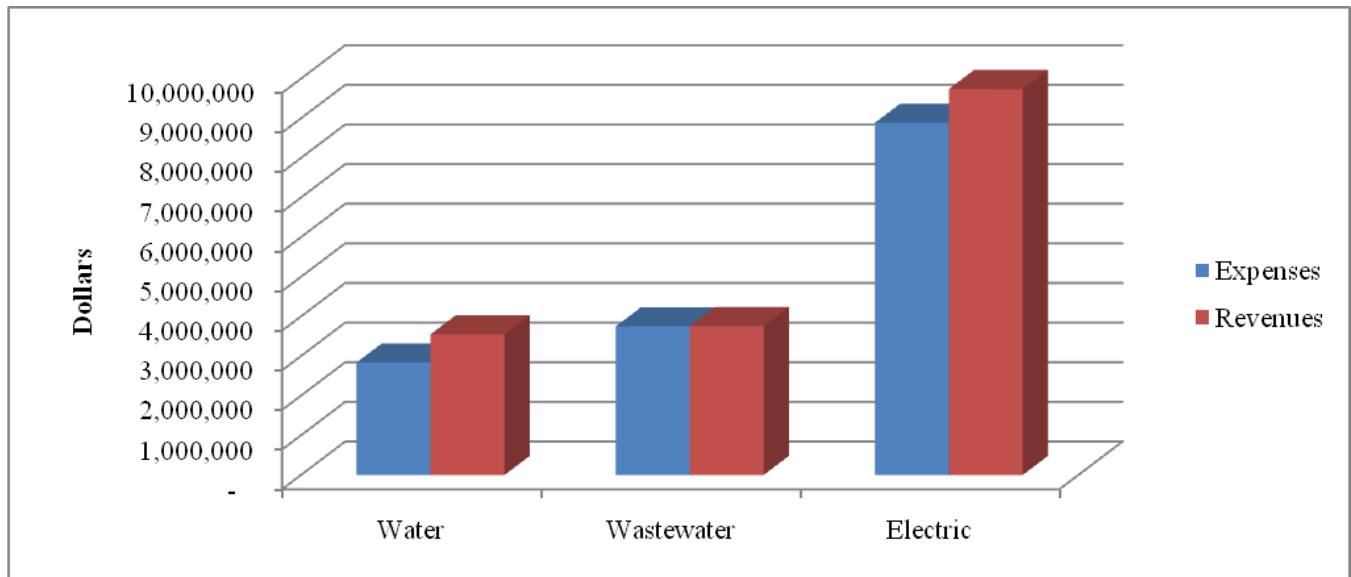
Expenses – Governmental Activities



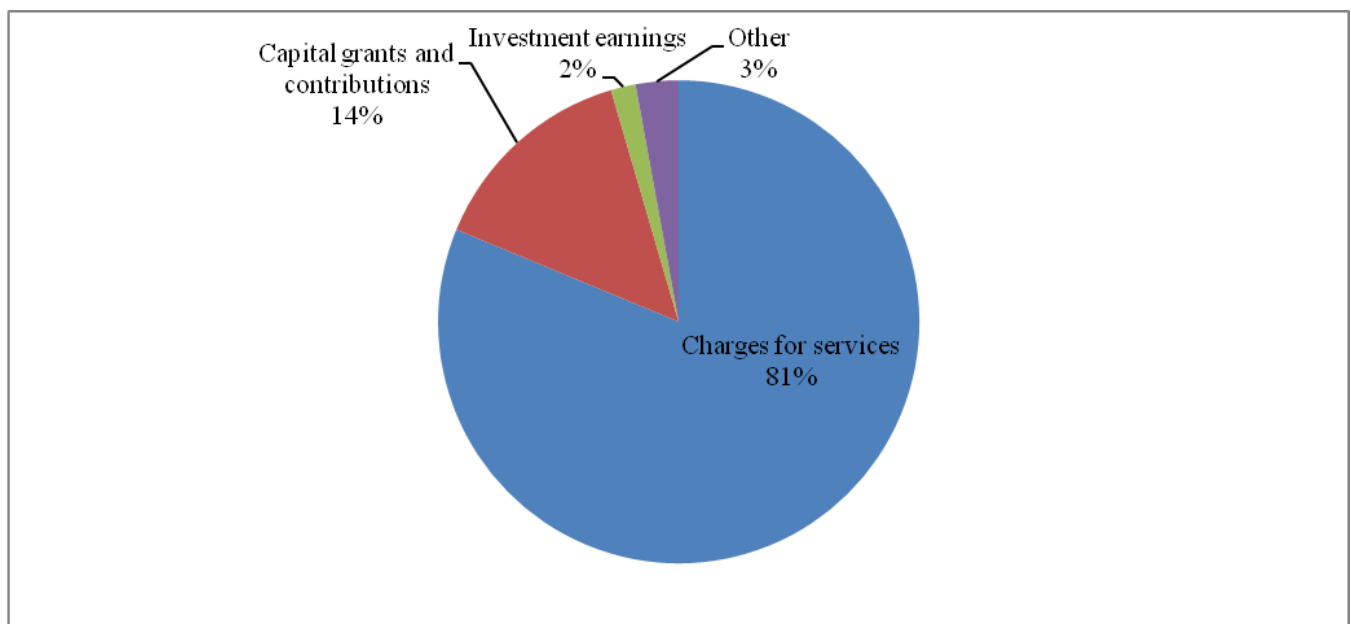
Revenues by Source – Governmental Activities



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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 \$9,507,451, an increase of \$76,316 in comparison with the prior year. Approximately 42% of this total amount – that is, \$4,000,756 constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been designated.

As a measure of the governmental fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29% of total governmental fund expenditures, while total fund balance represents 69% of that same amount.

The fund balance of the Town's general fund increased by \$12,781 during the current fiscal year. The primary reasons behind this increase are:

- The reason for the increase is due to the transfer in for Payment in Lieu of Taxes from the Utility enterprise funds providing a net increase of \$12,781.

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 \$15,800,927; the wastewater fund equaled \$6,189,302; and the unrestricted net assets for the electric fund amounted to \$2,982,468. The total decrease in net assets was \$633,322. 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 \$(3,995,224). Highlights are as follows:

- Revenue: Fund Balance – Decrease in General Fund Capital Contingency unreserved
- Revenue: Charges for Services – change in cable miscellaneous
- Revenue: Charges for Services – change in cable sponsorships
- Revenue : Charges for Services - change in Cable, Contributions-County, Town & Hosp
- General Fund-Town Manager – changes in Salaries- Part-time and Miscellaneous
- General Fund-Streets –change in repairs and maintenance for infrastructure
- General Fund-Parks and Recreation: changes in Contingency-Cable unreserved.
- General Fund-Tourism – changes in Printing and Binding
- Capital Projects – changes in expenditures for infrastructure related to several project
- Capital Projects – change in Engineering Services related to several projects
- Capital Projects – change in Building and Improvements related to several projects
- Capital Projects – change in Machinery and Equipment related to several projects
- Capital Projects – change in Administration

General Fund Budgetary Highlights (Continued)

Differences between the final amended budget and actual results amounted to \$7,327,545. Highlights are as follows:

- The budget for the Town's general property tax revenue was \$2,592,500. The actual revenue amount was \$2,717,909, resulting in a positive variance of \$125,409.
- The budget for the Town's food and beverage tax revenue was \$1,650,000. The actual revenue amount was \$1,790,475, resulting in a positive variance of \$140,475.
- The budget for the Town's recovered costs revenue was \$1,731,863. The actual revenue amount was \$2,174,055, resulting in a positive variance of \$442,192.
- The budget for the Town's parks and recreation expenses was \$547,960. The actual revenue amount was \$468,399, resulting in a positive variance of \$79,561.
- The budget for the Town's parks and recreation expenses was \$365,940. The actual revenue amount was \$261,897, resulting in a positive variance of \$104,043.
- The budget for the Town's capital projects expenses was \$7,568,675. The actual revenue amount was \$1,128,828, resulting in a positive variance of \$6,439,847.

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, 2011, amounts to \$88,334,824 (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	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,069,505	\$ 1,069,505	\$ 1,340,731	\$ 1,340,731	\$ 2,410,236	\$ 2,410,236
Buildings and improvements	21,398,736	20,966,319	95,095,593	94,500,990	116,494,329	115,467,309
Machinery and equipment	5,100,158	4,584,569	3,371,806	3,315,040	8,471,964	7,899,609
Infrastructure	33,137,446	32,753,204	-	-	33,137,446	32,753,204
Construction in progress	876,799	904,500	636,540	12,000	1,513,339	916,500
Less accumulated depreciation	(30,050,134)	(28,249,984)	(43,642,356)	(40,764,388)	(73,692,490)	(69,014,372)
Total	<u>\$ 31,532,510</u>	<u>\$ 32,028,113</u>	<u>\$ 56,802,314</u>	<u>\$ 58,404,373</u>	<u>\$ 88,334,824</u>	<u>\$ 90,432,486</u>

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

Economic Factors

Overall, tax receipts related to local business and tourism continue to show strength. General real and property tax, local sales tax and meals tax show a slight increase, while all other taxes remain relatively steady.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of \$41,896,747. 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	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 11,960,756	\$ 13,097,918	\$ 28,824,242	\$ 30,425,062	\$ 40,784,998	\$ 43,522,980
Bond premium	764,493	-	741,344	19,149	1,505,837	19,149
Loss on refunding	(130,838)	-	(263,250)	(163,862)	(394,088)	(163,862)
Total	<u>\$ 12,594,411</u>	<u>\$ 13,097,918</u>	<u>\$ 29,302,336</u>	<u>\$ 30,280,349</u>	<u>\$ 41,896,747</u>	<u>\$ 43,378,267</u>

The Town's total debt decreased by \$1,481,520 or 3.4% during the current fiscal year due to a refinancing and scheduled debt payoff.

The Town received an increase in its Standard & Poor's rating from Aa2 to A+; additionally, Moody's Investor Services has rated the Town A1 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, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority	Parking Authority
ASSETS					
Cash and cash equivalents (Note 2)	\$ 9,991,281	\$ 24,334,397	\$ 34,325,678	\$ 81,770	\$ -
Receivables, net (Note 3)	521,068	2,265,474	2,786,542	-	3,022
Accrued interest receivable	-	85,291	85,291	-	-
Due from component unit	39,736	-	39,736	-	-
Due from other governmental units (Note 5)	221,947	-	221,947	-	-
Inventories	-	894,338	894,338	-	-
Cash and cash equivalents, restricted (Note 2)	1,266,759	-	1,266,759	-	-
Prepaid expenses	58,070	26,104	84,174	-	-
Deferred expenses	186,737	526,173	712,910	-	-
Capital assets: (Note 6)				-	-
Nondepreciable	1,946,304	1,977,271	3,923,575	-	-
Depreciable, net	29,586,206	54,825,043	84,411,249	-	-
Total assets	43,818,108	84,934,091	128,752,199	81,770	3,022
LIABILITIES					
Accounts payable and accrued liabilities	425,838	1,035,006	1,460,844	-	-
Accrued payroll and related liabilities	415,547	181,290	596,837	-	-
Accrued interest payable	164,273	494,078	658,351	-	-
Due to primary government	-	-	-	-	39,736
Due to other governments (Note 5)	-	160,265	160,265	-	-
Customer security deposits	-	999,234	999,234	-	-
Other liabilities	1,419,667	-	1,419,667	-	-
Noncurrent liabilities: (Note 7)					
Due within one year	1,264,578	1,445,121	2,709,699	-	-
Due in more than one year	11,991,925	28,146,422	40,138,347	-	-
Total liabilities	15,681,828	32,461,416	48,143,244	-	39,736
NET ASSETS					
Invested in capital assets, net of related debt	19,124,836	24,320,985	43,445,821	-	-
Restricted:					
Cemetery fund-nonexpendable	542,416	-	542,416	-	-
Unrestricted	8,469,028	28,151,690	36,620,718	81,770	(36,714)
Total net assets	\$ 28,136,280	\$ 52,472,675	\$ 80,608,955	\$ 81,770	\$ (36,714)

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

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals		
					Governmental Activities	Business- Type Activities			
								Total	
Governmental activities:									
General government administration	\$ 1,337,825	\$ -	\$ -	\$ -	\$ (1,337,825)	\$ -	\$ (1,337,825)	\$ -	\$ -
Public safety	4,014,472	188,207	325,407	-	(3,500,858)	-	(3,500,858)	-	-
Public works	3,230,087	134,538	1,437,572	-	(1,657,977)	-	(1,657,977)	-	-
Parks, recreation, and cultural	581,190	477,141	5,000	-	(99,049)	-	(99,049)	-	-
Community development	1,854,682	8,461	759,716	-	(1,086,505)	-	(1,086,505)	-	-
Interest on long-term debt	338,982	-	-	-	(338,982)	-	(338,982)	-	-
Total governmental activities	11,357,238	808,347	2,527,695	-	(8,021,196)	-	(8,021,196)	-	-
Business-type activities:									
Water	2,989,018	2,893,750	-	-	-	(95,268)	(95,268)		
Wastewater	5,480,065	3,204,475	-	11,806	-	(2,263,784)	(2,263,784)		
Electric	10,158,556	10,680,058	-	-	-	521,502	521,502		
Total business-type activities	18,627,639	16,778,283	-	11,806	-	(1,837,550)	(1,837,550)		
Total primary government	\$ 29,984,877	\$ 17,586,630	\$ 2,527,695	\$ 11,806	(8,021,196)	(1,837,550)	(9,858,746)		
Component Units:									
Industrial development authority	\$ 454,661	\$ 454,106	\$ -	\$ -	-	-	-	(555)	-
Parking authority	105,607	67,845	-	-	-	-	-	-	(37,762)
Total component units	\$ 560,268	\$ 521,951	\$ -	\$ -	-	-	-	(555)	(37,762)
General revenues:									
Property taxes					2,757,576	-	2,757,576	-	-
Sales tax					986,332	-	986,332	-	-
Business license tax					1,010,056	-	1,010,056	-	-
Bank stock tax					329,972	-	329,972	-	-
Cigarette tax					144,010	-	144,010	-	-
Hotel and motel room tax					256,929	-	256,929	-	-
Meals tax					1,790,476	-	1,790,476	-	-
Other local taxes					198,877	-	198,877	-	-
Intergovernmental revenue, unrestricted					285,193	-	285,193	-	-
Unrestricted investment earnings					22,309	252,103	274,412	-	-
Other					163,583	1,252,125	1,415,708	-	-
Transfers (Note 4)					300,000	(300,000)	-	-	-
Total general revenues and transfers					8,245,313	1,204,228	9,449,541	-	-
Change in net assets					224,117	(633,322)	(409,205)	(555)	(37,762)
Net assets at July 1					27,912,163	53,105,997	81,018,160	82,325	1,048
Net assets at June 30					\$ 28,136,280	\$ 52,472,675	\$ 80,608,955	\$ 81,770	\$ (36,714)

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

TOWN OF CULPEPER, VIRGINIA

BALANCE SHEET –
GOVERNMENTAL FUNDS

June 30, 2011

		Permanent Fund	
	General Fund	Cemetery Perpetual Care	Total
ASSETS			
Cash and cash equivalents	\$ 9,449,809	\$ 541,472	\$ 9,991,281
Cash and cash equivalents, restricted	1,266,759	-	1,266,759
Receivables, net (Note 3)	520,124	944	521,068
Prepays	58,070	-	58,070
Due from component unit	39,736	-	39,736
Due from other governmental units (Note 5)	221,947	-	221,947
Total assets	<u>\$ 11,556,445</u>	<u>\$ 542,416</u>	<u>\$ 12,098,861</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 425,838	\$ -	\$ 425,838
Accrued payroll and related liabilities	415,547	-	415,547
Deferred revenue	330,358	-	330,358
Other liabilities	1,419,667	-	1,419,667
Total liabilities	<u>2,591,410</u>	<u>-</u>	<u>2,591,410</u>
Fund balances: (Note 8)			
Nonspendable	58,070	542,416	600,486
Restricted	265,133	-	265,133
Committed	83,125	-	83,125
Assigned	4,557,951	-	4,557,951
Unassigned	4,000,756	-	4,000,756
Total fund balances	<u>8,965,035</u>	<u>542,416</u>	<u>9,507,451</u>
Total liabilities and fund balances	<u>\$ 11,556,445</u>	<u>\$ 542,416</u>	<u>\$ 12,098,861</u>

TOWN OF CULPEPER, VIRGINIA

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

June 30, 2011

Total Fund Balances – Governmental Funds	\$ 9,507,451
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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	\$ 1,946,304	
Depreciable, net	<u>29,586,206</u>	
		31,532,510

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 of \$207,440 and		
accumulated amortization of \$20,703	186,737	
Bond premiums total \$804,730 and		
accumulated amortization of \$40,237	(764,493)	
Deferred loss on refunding total \$141,741 and		
accumulated amortization of \$10,903.	<u>130,838</u>	(446,918)

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.

330,358

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(11,960,756)	
Accrued interest payable	(164,273)	
Other post-employment benefits	(68,072)	
Compensated absences	<u>(594,020)</u>	
		<u>(12,787,121)</u>

Total Net Assets – Governmental Activities	\$ 28,136,280
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TOWN OF CULPEPER, VIRGINIA

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

Year Ended June 30, 2011

		Permanent Fund	
	General Fund	Cemetery Perpetual Care	Total
REVENUES			
General property taxes	\$ 2,717,909	\$ -	\$ 2,717,909
Other local taxes	4,714,553	-	4,714,553
Permits, privilege fees, and regulatory licenses	278,571	-	278,571
Fines and forfeitures	123,623	-	123,623
Revenues from use of money and property	229,159	3,532	232,691
Charges for services	140,366	60,003	200,369
Other	122,173	-	122,173
Recovered costs	2,174,055	-	2,174,055
Intergovernmental	2,853,767	-	2,853,767
Total revenues	13,354,176	63,535	13,417,711
EXPENDITURES			
Current:			
General government administration	2,491,505	-	2,491,505
Public safety	3,920,633	-	3,920,633
Public works	2,820,311	-	2,820,311
Parks, recreation, and cultural	654,533	-	654,533
Community development	1,140,210	-	1,140,210
Capital projects	1,628,829	-	1,628,829
Debt service:			
Principal retirement	573,103	-	573,103
Interest and fiscal charges	412,271	-	412,271
Bond issuance costs	150,834	-	150,834
Total expenditures	13,792,229	-	13,792,229
Excess (deficiency) of revenues over expenditures	(438,053)	63,535	(374,518)
OTHER FINANCING SOURCES (USES)			
Issuance of general obligation bonds	10,223,397	-	10,223,397
Bond premium on issuance	804,730	-	804,730
Payments to escrow agent	(10,877,293)	-	(10,877,293)
Transfers in	300,000	-	300,000
Total other financing sources (uses)	450,834	-	450,834
Net change in fund balances	12,781	63,535	76,316
FUND BALANCES AT JULY 1	8,952,254	478,881	9,431,135
FUND BALANCES AT JUNE 30	\$ 8,965,035	\$ 542,416	\$ 9,507,451

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, 2011

Net Change in Fund Balances – Governmental Funds \$ 76,316

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 \$1,338,198 were exceeded by depreciation expense of \$1,800,150 in the current period. (461,952)

The net effect of various transactions involving capital assets (i.e. sales, trade-ins, dispositions, and insurance proceeds) is to decrease net assets. (33,651)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 37,698

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	\$ 11,360,559	
Changes in deferred charges on bond issuance costs	85,210	
Proceeds from bonds	(10,223,397)	
Changes in bond premiums	(764,493)	
Changes in loss on refunding	130,838	
		588,717

Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits 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	(6,193)	
Change in other post-employment benefits	(34,494)	
Change in accrued interest payable	57,676	
		16,989

Change in Net Assets – Governmental Activities \$ 224,117

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET ASSETS –
PROPRIETARY FUNDS

June 30, 2011

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 12,035,946	\$ 5,936,250	\$ 6,362,201	\$ 24,334,397
Receivables, net (Note 3)	359,833	382,181	1,523,460	2,265,474
Accrued interest receivable	85,291	-	-	85,291
Interfund advances receivable (Note 4)	171,441	-	-	171,441
Prepays	7,875	9,785	8,444	26,104
Inventories	132,672	97,285	664,381	894,338
Total current assets	12,793,058	6,425,501	8,558,486	27,777,045
Noncurrent assets:				
Deferred expenses	12,596	432,945	80,632	526,173
Interfund advances receivable (Note 4)	3,533,725	-	-	3,533,725
Capital assets: (Note 6)				
Nondepreciable	1,712,868	17,308	247,095	1,977,271
Depreciable, net	5,931,404	40,972,389	7,921,250	54,825,043
Total noncurrent assets	11,190,593	41,422,642	8,248,977	60,862,212
Total assets	23,983,651	47,848,143	16,807,463	88,639,257
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	160,922	29,586	844,498	1,035,006
Accrued payroll and related liabilities	55,867	61,319	64,104	181,290
Accrued interest payable	38,637	316,456	138,985	494,078
Due to other governmental units	-	160,265	-	160,265
General obligation bonds (Note 7)	378,764	636,458	221,437	1,236,659
Interfund advances payable (Note 4)	-	-	171,441	171,441
Compensated absences (Note 7)	60,278	72,563	75,621	208,462
Customer security deposits	198,771	-	800,463	999,234
Total current liabilities	893,239	1,276,647	2,316,549	4,486,435
Noncurrent liabilities:				
General obligation bonds (Note 7)	2,918,120	20,900,536	4,247,021	28,065,677
Interfund advances payable (Note 4)	-	-	3,533,725	3,533,725
Other post-employment benefits (Note 14)	8,907	10,815	8,907	28,629
Compensated absences	15,070	18,140	18,906	52,116
Total noncurrent liabilities	2,942,097	20,929,491	7,808,559	31,680,147
Total liabilities	3,835,336	22,206,138	10,125,108	36,166,582
NET ASSETS				
Invested in capital assets, net of related debt	4,359,983	19,885,648	75,354	24,320,985
Unrestricted	15,788,332	5,756,357	6,607,001	28,151,690
Total net assets	\$ 20,148,315	\$ 25,642,005	\$ 6,682,355	\$ 52,472,675

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUNDS
Year Ended June 30, 2011**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 2,861,236	\$ 3,162,639	\$ 10,617,747	\$ 16,641,622
Penalties	28,884	28,855	29,731	87,470
Other charges	3,630	12,981	32,580	49,191
Total operating revenues	2,893,750	3,204,475	10,680,058	16,778,283
OPERATING EXPENSES				
Water treatment	1,806,498	-	-	1,806,498
Wastewater collection	-	367,869	-	367,869
Wastewater treatment	-	2,692,708	-	2,692,708
Transmission and distribution	444,024	-	1,133,897	1,577,921
Power purchased	-	-	7,191,664	7,191,664
Administration	-	-	703,322	703,322
Other	52,608	-	-	52,608
Depreciation	504,229	1,579,407	794,332	2,877,968
Total operating expenses	2,807,359	4,639,984	9,823,215	17,270,558
Operating income (loss)	86,391	(1,435,509)	856,843	(492,275)
NONOPERATING REVENUES (EXPENSES)				
Interest income	215,297	34,550	2,256	252,103
Interest expense	(181,659)	(840,081)	(335,341)	(1,357,081)
Tap fees	524,905	727,220	-	1,252,125
Net nonoperating revenue (expenses)	558,543	(78,311)	(333,085)	147,147
Income (loss) before transfers and capital contributions	644,934	(1,513,820)	523,758	(345,128)
TRANSFERS OUT (Note 4)	(100,000)	(100,000)	(100,000)	(300,000)
CAPITAL CONTRIBUTIONS	-	11,806	-	11,806
Change in net assets	544,934	(1,602,014)	423,758	(633,322)
NET ASSETS AT JULY 1	19,603,381	27,244,019	6,258,597	53,105,997
NET ASSETS AT JUNE 30	\$ 20,148,315	\$ 25,642,005	\$ 6,682,355	\$ 52,472,675

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,936,875	\$ 3,225,734	\$ 10,690,225	\$ 16,852,834
Payments to suppliers	(2,498,371)	(3,512,483)	(7,595,790)	(13,606,644)
Payments to employees	(903,633)	(1,179,010)	(1,137,661)	(3,220,304)
Net cash provided by (used in) operating activities	(465,129)	(1,465,759)	1,956,774	25,886
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers	(100,000)	(100,000)	(100,000)	(300,000)
Net cash used in noncapital financing activities	(100,000)	(100,000)	(100,000)	(300,000)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issuance	305,843	7,827,859	2,328,867	10,462,569
Purchases of capital assets	(565,664)	(582,856)	(195,454)	(1,343,974)
Principal paid on capital debt	(703,365)	(8,068,985)	(2,530,073)	(11,302,423)
Interfund advance for capital items	164,081	-	(164,081)	-
Costs of issuance	-	(107,063)	(31,889)	(138,952)
Capital grant	-	595,577	-	595,577
Tap fees collected	524,905	727,220	-	1,252,125
Interest paid on capital debt	(162,420)	(902,380)	(370,452)	(1,435,252)
Net cash used in capital and related financing activities	(436,620)	(510,628)	(963,082)	(1,910,330)
INVESTING ACTIVITIES				
Interest received	231,273	34,550	2,256	268,079
Net cash provided by investing activities	231,273	34,550	2,256	268,079
Net increase (decrease) in cash and cash equivalents	(770,476)	(2,041,837)	895,948	(1,916,365)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	12,806,422	7,978,087	5,466,253	26,250,762
Ending at June 30	\$ 12,035,946	\$ 5,936,250	\$ 6,362,201	\$ 24,334,397
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 86,391	\$ (1,435,509)	\$ 856,843	\$ (492,275)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	504,229	1,579,407	794,332	2,877,968
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	26,191	21,259	(3,209)	44,241
Inventories	32,570	6,316	102,728	141,614
Prepays	(2,086)	(1,725)	(2,165)	(5,976)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(1,161,312)	(1,655,080)	167,732	(2,648,660)
Accrued payroll and related liabilities	13,480	12,751	13,655	39,886
Customer security deposits	16,934	-	13,376	30,310
Other post-employment benefits	4,514	5,480	4,514	14,508
Compensated absences	13,960	1,342	8,968	24,270
Net cash provided by operating activities	\$ (465,129)	\$ (1,465,759)	\$ 1,956,774	\$ 25,886
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 112,212	\$ 1,443	\$ 1,443	\$ 115,098
Capitalized interest	\$ 14,363	\$ -	\$ -	\$ 14,363

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Culpeper, Virginia (the “Town”) was established 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 from the Town. The Town is financially accountable for these component units because they approve their budget and must approve any debt issuances.

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 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 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, 2011

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 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 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, intergovernmental revenue, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current 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, 2011

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 electric 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 GASB. 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 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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) Formal budgetary integration is employed as a management control device for all funds.
- 5) 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. 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.

F. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis.

G. 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.

H. 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 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

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, \$14,363 in interest expense was included as part of the cost of capital assets under construction.

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.

I. 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.

J. Deferred Revenues

Deferred revenues consist of property taxes not collected within 45 days of year end.

K. Compensated Absences

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 is reported in the governmental funds only when the amounts are due and payable.

L. 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 expenses and amortized over the term of the related debt.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

L. Long-Term Obligations (Continued)

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.

M. Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** - Amounts the Town intends to use for a specified purpose; intent can be expressed by the governing body or by management which has been designated this authority by the governing body.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the general fund.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

N. Restricted Amounts

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. Minimum Fund Balance Policy

Within its general fund balance, the Town will maintain a fiscal stability reserve amount for cash liquidity purposes. That balance will be sufficient to meet the Town's cyclical cash flow requirements and avoid the need for short term tax anticipation borrowing. The fiscal stability reserve shall have a balance that is not less than fifteen percent of the combined budgeted expenditures of the general fund and an optimum balance of forty percent of expenditures.

Enterprise funds of the Town have a specified net asset target of one hundred percent of expenditures and an optimum balance of two hundred percent of expenditures.

P. 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 governmental funds. General fund encumbrances are \$4,522,951 as of June 30.

Q. Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

In accordance with the *Code of Virginia* and other applicable laws and 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, the Town had the following deposit and investments:

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Portfolio</u>
Demand deposits	\$ 14,396,662	NA	40.45 %
LGIP	21,195,775	AAAm	59.55
	<u>\$ 35,592,437</u>		<u>100.00 %</u>

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, 2011

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, 100% of the portfolio will mature in less than one year. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

The policy requires that all investment securities purchased 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	14,395,312
Investments	<u>21,195,775</u>
Total deposits and investments	<u><u>\$ 35,592,437</u></u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 34,325,678
Cash and cash equivalents, restricted	<u>1,266,759</u>
Total deposits and investments	<u><u>\$ 35,592,437</u></u>

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for performance bonds.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Receivables

Receivables for the individual funds are as follows:

	General	Cemetery Perpetual Care	Water	Wastewater	Electric	Total
Receivables						
Taxes	\$ 388,370	\$ -	\$ -	\$ -	\$ -	\$ 388,370
Accounts	271,254	944	365,348	388,149	1,542,849	2,568,544
Gross receivables	659,624	944	365,348	388,149	1,542,849	2,956,914
Less: allowance for uncollectibles	(139,500)	-	(5,515)	(5,968)	(19,389)	(170,372)
Receivables, net	<u>\$ 520,124</u>	<u>\$ 944</u>	<u>\$ 359,833</u>	<u>\$ 382,181</u>	<u>\$ 1,523,460</u>	<u>\$ 2,786,542</u>

Note 4. Interfund Advance and Transfers and Due from Component Units

Interfund advances and amounts due from component units:

In the proprietary funds statements, advances consisting of three loans by the water fund to the electric fund is reported. 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 Parking Authority owed the general fund and governmental activities approximately \$40,000 at year end for negative cash in the pooled funds account.

Interfund transfers are as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water	General	\$ 100,000
Wastewater	General	100,000
Electric	General	100,000
		<u>\$ 300,000</u>

The primary purpose of these transfers is payments in lieu of taxes.

Note 5. Due To/From Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities
County of Culpeper:	
Local sales tax	\$ 173,487
Federal Government:	
NSP Grant	35,265
Other	13,195
	<u>\$ 221,947</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	904,500	5,950	33,651	876,799
Total capital assets, not depreciated	<u>1,974,005</u>	<u>5,950</u>	<u>33,651</u>	<u>1,946,304</u>
Capital assets, depreciated:				
Buildings and improvements	20,966,319	432,417	-	21,398,736
Machinery and equipment	4,584,569	515,589	-	5,100,158
Infrastructure	32,753,204	384,242	-	33,137,446
Total capital assets, depreciated	<u>58,304,092</u>	<u>1,332,248</u>	<u>-</u>	<u>59,636,340</u>
Less accumulated depreciation:				
Buildings and improvements	8,513,331	534,582	-	9,047,913
Machinery and equipment	3,465,468	374,834	-	3,840,302
Infrastructure	16,271,185	890,734	-	17,161,919
Total accumulated depreciation	<u>28,249,984</u>	<u>1,800,150</u>	<u>-</u>	<u>30,050,134</u>
Net capital assets, depreciated	<u>30,054,108</u>	<u>(467,902)</u>	<u>-</u>	<u>29,586,206</u>
Governmental activities capital assets, net	<u>\$ 32,028,113</u>	<u>\$ (461,952)</u>	<u>\$ 33,651</u>	<u>\$ 31,532,510</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 6. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 1,340,731	\$ -	\$ -	\$ 1,340,731
Construction in progress	12,000	624,540	-	636,540
Total capital assets, not depreciated	1,352,731	624,540	-	1,977,271
Capital assets, depreciated				
Buildings and improvements	94,500,990	594,603	-	95,095,593
Machinery and equipment	3,315,040	56,766	-	3,371,806
Total capital assets, depreciated	97,816,030	651,369	-	98,467,399
Less accumulated depreciation				
Buildings and improvements	38,225,481	2,624,574	-	40,850,055
Machinery and equipment	2,538,907	253,394	-	2,792,301
Total accumulated depreciation	40,764,388	2,877,968	-	43,642,356
Net capital assets, depreciated	57,051,642	(2,226,599)	-	54,825,043
Business-type activities capital assets, net	<u>\$ 58,404,373</u>	<u>\$ (1,602,059)</u>	<u>\$ -</u>	<u>\$ 56,802,314</u>

Depreciation expense was charged to functions/programs as follows:

Primary Government – Governmental Activities

General government administration	\$ 446,775
Public safety	251,742
Public works	1,055,676
Parks, recreation, and cultural	45,957
Total governmental activities	<u>\$ 1,800,150</u>

Primary Government – Business-Type Activities

Water	\$ 504,229
Wastewater	1,579,407
Electric	794,332
Total business-type activities	<u>\$ 2,877,968</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	\$ 13,097,918	\$ 10,223,397	\$ 11,360,559	\$ 11,960,756	\$ 760,028
Bond premium	-	804,730	40,237	764,493	40,237
Loss on refunding	-	(141,741)	(10,903)	(130,838)	(10,903)
Other post-employment benefits	33,578	34,494	-	68,072	-
Compensated absences	587,827	594,020	587,827	594,020	475,216
Governmental activities long-term liabilities	<u>\$ 13,719,323</u>	<u>\$ 11,514,900</u>	<u>\$ 11,977,720</u>	<u>\$ 13,256,503</u>	<u>\$ 1,264,578</u>
Business-Type Activities:					
General obligation bonds	\$ 30,425,062	\$ 9,701,603	\$ 11,302,423	\$ 28,824,242	\$ 1,228,972
Bond premium	19,149	760,966	38,771	741,344	38,771
Loss on refunding	(163,862)	(130,572)	(31,184)	(263,250)	(31,084)
Other post-employment benefits	14,121	14,508	-	28,629	-
Compensated absences	236,308	260,578	236,308	260,578	208,462
Business-Type activities long-term liabilities	<u>\$ 30,530,778</u>	<u>\$ 10,607,083</u>	<u>\$ 11,546,318</u>	<u>\$ 29,591,543</u>	<u>\$ 1,445,121</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
2012	\$ 760,028	\$ 395,814	\$ 1,228,972	\$ 1,121,553
2013	775,652	377,877	1,279,348	1,083,505
2014	792,344	360,082	1,314,657	1,043,873
2015	746,637	342,945	1,398,363	1,002,326
2016	764,596	323,178	1,441,405	955,480
2017-2021	3,836,799	1,247,542	6,071,198	4,018,261
2022-2026	3,699,887	538,390	5,485,112	2,966,079
2027-2031	584,813	42,694	4,050,187	1,968,318
2032-2036	-	-	4,480,000	1,071,938
2037-2041	-	-	2,075,000	141,075
	<u>\$ 11,960,756</u>	<u>\$ 3,628,522</u>	<u>\$ 28,824,242</u>	<u>\$ 15,372,408</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 Public Improvement and Refunding Bond	4.455%	2002	2018	\$ 8,018,000	\$ -	\$ 3,119,000
General Obligation Public Improvement Bond	3.25% - 4.50%	2008	2038	17,895,000	1,385,000	15,915,000
General Obligation Public Improvement and Refunding Bond	2.86%	2009	2014	676,000	352,359	88,641
General Obligation Refunding Bond	2.75%	2010	2030	19,925,000	10,223,397	9,701,601
					<u>\$ 11,960,756</u>	<u>\$ 28,824,242</u>

Current Year Refunding of Debt

In September 2010, the Town issued \$19,925,000 in general obligation bonds with an average interest rate of 2.75%. These bonds were issued to refund approximately \$21,013,000 in outstanding bonds including bond issuances in 2002, 2003, 2007 and 2009. The net proceeds of the refunding were \$21,493,387 (including \$1,568,387 in bond premium and payment of \$293,970 in underwriting fees and other issuance costs). The liability for the refunded bonds has been replaced with the liability from the new debt with the difference between the reacquisition price and the net carrying amount of the old debt being deferred and amortized over the life of the new debt in proportion to the stated interest due on the new debt.

The Town refunded these bonds to reduce its total debt service over the next 20 years by \$2,486,798 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$2,065,453.

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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 8. Fund Balance

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the general fund balance and other governmental funds balance are presented below:

	General Fund	Other Governmental Funds
Nonspendable:		
Prepays	\$ 58,070	\$ -
Cemetery perpetual care	-	542,416
Total nonspendable	58,070	542,416
Restricted for:		
Community development	265,133	-
Total restricted	265,133	-
Committed to:		
General government administration	59,028	-
Public safety	4,617	-
Health and welfare	6,250	-
Community development	6,020	-
Other capital projects	7,210	-
Total committed	83,125	-
Assigned to:		
General government administration	45,162	-
Public safety	12,500	-
Public works	5,000	-
Health and welfare	20,000	-
Community development	884,566	-
Subsequent year appropriation	35,000	-
Other capital projects	3,555,723	-
Total assigned	4,557,951	-
Unassigned	4,000,756	-
Total fund balance	\$ 8,965,035	\$ 542,416

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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

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

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. The employer may assume all or part of 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 year ended 2011 was 10.27% of annual covered payroll.

Annual Pension Cost

For 2011, the Town's annual pension cost of \$712,470 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, 2011	\$ 712,470	100%	\$ -
June 30, 2010	\$ 701,676	100%	\$ -
June 30, 2009	\$ 1,019,791	100%	\$ -

The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.50% investment rate of return (net of administrative expenses), (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 remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 73.29% funded. The actuarial accrued liability for benefits was \$30,334,011 and the actuarial value of assets was \$22,231,761, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,102,250. The covered payroll (annual payroll of active employees covered by the plan) was \$7,275,824, and the ratio of the UAAL to the covered payroll was 111.36%.

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 for 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 2010 taxes due January 31, 2011 was \$.13 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 2011 were approximately \$171,000.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 12. Risk Management (Continued)

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 2011 were approximately \$354,000.

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

Certain lawsuits are 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.

EPA Show Cause Order

Subsequent to year end, the Town received a penalty letter from the EPA alleging a number of federal environmental requirements involving chemicals management and emergency planning. The EPA propose a total of approximately \$160,000 in civil administrative liabilities which the Town has recorded as of June 30, 2011. The Town anticipates negotiating a final settlement with the APA.

Note 14. Other Post-Employment Benefits

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, 2011

Note 14. Other Post-Employment Benefits (Continued)

Plan Description (Continued)

Participants in the Town's OPEB plan must meet 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	4
Active employees	152
Total	156

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

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

Annual required contribution	\$ 73,800
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	73,800
Contributions made	(24,798)
Increase in net OPEB obligation	49,002
Net OPEB obligation – beginning of year	47,699
Net OPEB obligation – end of year	\$ 96,701

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 was the Town's first year for implementing GASB No. 45, the Town cannot report the same information for June 30, 2009.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 73,800	33.60%	\$ 49,000
June 30, 2010	\$ 70,100	31.96%	\$ 47,699

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 14. Other Post-Employment Benefits (Continued)

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.

Note 15. Annexation Agreement

An agreement between the Town and the County of Culpeper is before the Council on Local Government for Virginia for final approval. The agreement sets forth the provisions for boundary line adjustments over the next 30 years. The Town will be providing specified water and wastewater services during this time to specific areas which will be customers of the Town. When the boundary line adjustment occurs, certain assets of the County may become assets of the Town. The Town has agreed to reduce BPOL taxes by 20%.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 16. Subsequent Events

In July, Council approved the sale of up to \$2.3 million general obligation bonds for the 2012 general fund vehicle and equipment replacement program and selected construction projects.

Council awarded several contracts related to the Automatic Meter Reading Project of approximately \$2.3 million.

Note 17. New Accounting Standards

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

GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements* was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

Management has not yet evaluated the effects, if any, of adopting these standards.

**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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 2,592,500	\$ 2,592,500	\$ 2,717,909	\$ 125,409
Other local taxes	930,000	930,000	988,306	58,306
Business license tax	995,000	995,000	1,010,056	15,056
Franchise license tax	140,000	140,000	140,921	921
Bank stock tax	240,000	240,000	329,972	89,972
Cigarette tax	175,000	175,000	144,010	(30,990)
Hotel and motel room tax	220,000	220,000	256,929	36,929
Food and beverage tax	1,650,000	1,650,000	1,790,476	140,476
Local consumption tax	60,000	60,000	53,883	(6,117)
Permits, privilege fees, and regulatory licenses	180,200	180,200	278,571	98,371
Fines and forfeitures	173,000	173,000	123,623	(49,377)
Revenues from use of money and property	231,100	231,100	229,159	(1,941)
Charges for services	257,215	268,638	140,366	(128,272)
Other	76,500	76,500	122,173	45,673
Recovered costs	1,731,863	1,731,863	2,174,055	442,192
Intergovernmental	2,824,485	2,824,485	2,853,767	29,282
Total revenues	12,476,863	12,488,286	13,354,176	865,890
EXPENDITURES				
Current:				
General government administration				
Town council	163,035	163,035	156,018	7,017
Town manager	277,611	302,611	271,011	31,600
Town clerk	218,614	218,614	211,756	6,858
Human resources	60,224	60,224	38,451	21,773
Legal services	150,270	150,270	162,643	(12,373)
Independent auditor	32,000	32,000	131,251	(99,251)
Treasurer	751,327	751,327	787,501	(36,174)
Utility services	226,340	226,340	221,515	4,825
Risk management	129,782	129,782	68,842	60,940
Information technology	233,318	233,318	216,266	17,052
Motor pool	237,296	237,296	225,695	11,601
Electoral board	7,900	7,900	556	7,344
Total general government administration	2,487,717	2,512,717	2,491,505	21,212
Public safety				
Police department	4,048,017	4,048,017	3,920,633	127,384
Total public safety	4,048,017	4,048,017	3,920,633	127,384

(Continued)

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public works				
Public works administration	\$ 311,333	\$ 311,333	\$ 260,787	\$ 50,546
Streets	1,829,916	1,929,547	1,923,292	6,255
Refuse collection	375,444	375,444	374,334	1,110
General properties	365,940	365,940	261,898	104,042
Total public works	<u>2,882,633</u>	<u>2,982,264</u>	<u>2,820,311</u>	<u>161,953</u>
Parks, recreation, and cultural				
Parks and recreation	531,320	547,960	468,399	79,561
Cemetery	247,669	247,669	186,134	61,535
Total parks, recreation, and cultural	<u>778,989</u>	<u>795,629</u>	<u>654,533</u>	<u>141,096</u>
Community development				
Planning and zoning	453,690	458,333	453,871	4,462
Visitors center	85,821	85,821	80,765	5,056
Tourism	234,847	238,916	216,055	22,861
Economic development	100,000	100,000	100,000	-
Contributions	200,539	200,539	274,004	(73,465)
Community development	-	-	15,515	(15,515)
Total community development	<u>1,074,897</u>	<u>1,083,609</u>	<u>1,140,210</u>	<u>(56,601)</u>
Capital projects				
Capital projects	<u>3,512,011</u>	<u>7,568,675</u>	<u>1,628,829</u>	<u>5,939,846</u>
Debt service:				
Principal retirement	573,103	573,103	573,103	-
Interest and fiscal charges	539,036	539,036	412,271	126,765
Bond issuance costs	-	-	150,834	(150,834)
Total debt service	<u>1,112,139</u>	<u>1,112,139</u>	<u>1,136,208</u>	<u>(24,069)</u>
Total expenditures	<u>15,896,403</u>	<u>20,103,050</u>	<u>13,792,229</u>	<u>6,310,821</u>
Excess of expenditures over revenues	<u>(3,419,540)</u>	<u>(7,614,764)</u>	<u>(438,053)</u>	<u>7,176,711</u>
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	-	-	10,223,397	10,223,397
Bond premium on issuance	-	-	804,730	804,730
Payments to escrow agent	-	-	(10,877,293)	(10,877,293)
Transfers in	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Total other financing sources (uses)	<u>300,000</u>	<u>300,000</u>	<u>450,834</u>	<u>150,834</u>
Net change in fund balances	<u>\$ (3,119,540)</u>	<u>\$ (7,314,764)</u>	<u>\$ 12,781</u>	<u>\$ 7,327,545</u>

Note 1: The budget is adopted in accordance with the modified accrual basis of accounting.

TOWN OF CULPEPER, VIRGINIA

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

June 30, 2011

	(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, 2010	\$ 22,231,761	\$ 30,334,011	\$ 8,102,250	73.29%	\$ 7,275,824	111.36%
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%
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, 2011**

	Industrial Development Authority	Parking Authority	Total
ASSETS			
Cash and cash equivalents	\$ 81,770	\$ -	\$ 81,770
Receivables, net	-	3,022	3,022
	<u>81,770</u>	<u>3,022</u>	<u>84,792</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to primary government	-	39,736	39,736
Fund balances			
Assigned	81,770	-	81,770
Unassigned	-	(36,714)	(36,714)
	<u>-</u>	<u>(36,714)</u>	<u>(36,714)</u>
Total liabilities and fund balances	<u>\$ 81,770</u>	<u>\$ 3,022</u>	<u>\$ 84,792 *</u>

* There are no reconciling items between the modified accrual and 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, 2011**

	Industrial Development Authority	Parking Authority	Total
REVENUES			
Charges for services	\$ 454,106	\$ 67,845	\$ 521,951
EXPENDITURES			
Public works	-	105,607	105,607
Community development	454,661	-	454,661
Total expenditures	454,661	105,607	560,268
Excess (deficiency) of revenues over expenditures	(555)	(37,762)	(38,317)
Net change in fund balances	(555)	(37,762)	(38,317)
FUND BALANCES AT JULY 1	82,325	1,048	83,373
FUND BALANCES AT JUNE 30	\$ 81,770	\$ (36,714)	\$ 45,056 *

* There are no reconciling items between the modified accrual and 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, 2011**

<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	\$ 759,716
<u>DEPARTMENT OF JUSTICE</u>		
<u>Virginia Department of Criminal Justice Services</u>		
Crime Victim Assistance	16.575	28,458
Violence Against Women Formula Grant	16.588	27,761
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Virginia Department of Motor Vehicles</u>		
State and Community Highway Safety	20.607	<u>16,480</u>
Total Expenditures of Federal Awards		<u><u>\$ 832,415</u></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.

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 Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year						
	2011	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Governmental Activities							
Invested in capital assets, net of related debt	\$ 19,571,754	\$ 21,719,577	\$ 23,576,860	\$ 21,499,768	\$ 19,617,242	\$ 26,197,634	\$ 6,674,715
Restricted	542,416	592,481	-	1,415,016	2,709,578	-	-
Unrestricted	8,022,110	5,600,105	3,726,292	5,849,000	6,705,638	3,716,440	4,341,347
Total governmental activities net assets	<u>\$ 28,136,280</u>	<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	\$ 27,499,978	\$ 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	24,972,697	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>\$ 52,472,675</u>	<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	\$ 47,071,732	\$ 49,843,601	\$ 45,828,574	\$ 35,610,771	\$ 41,215,192	\$ 45,455,788	\$ 23,547,448
Restricted	542,416	592,481	2,470,415	20,634,121	2,709,578	-	-
Unrestricted	32,994,807	30,582,078	30,245,499	23,578,092	30,244,711	24,675,437	20,858,442
Total primary government net assets	<u>\$ 80,608,955</u>	<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 since 2005 due to implementation of GASB 34

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

TABLE 2

TOWN OF CULPEPER, VIRGINIA

CHANGES IN NET ASSETS BY COMPONENT
Last Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
Expenses							
Governmental Activities:							
General government	\$ 1,337,825	\$ 1,257,522	\$ 1,620,482	\$ 1,179,182	\$ 1,923,079	\$ 2,052,211	\$ 2,263,864
Public safety	4,014,472	3,962,281	4,082,574	3,953,400	3,729,120	3,265,458	2,861,082
Public works	3,230,087	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	581,190	541,764	555,241	629,683	624,332	472,106	448,082
Community development	1,854,682	1,709,856	1,116,215	1,063,436	1,035,442	1,194,108	1,237,622
Interest on long-term debt	338,982	509,832	295,133	276,215	157,203	145,391	156,384
Total governmental activities	11,357,238	11,597,075	11,877,485	11,202,351	10,960,042	10,261,836	9,157,346
Business-Type Activities:							
Water	2,989,018	2,836,510	3,044,418	3,164,725	2,623,445	2,414,757	2,208,579
Wastewater	5,480,065	3,745,960	4,778,920	4,316,981	3,507,532	3,116,891	2,935,237
Electric	10,158,556	8,884,255	9,596,223	9,950,373	8,803,188	8,036,552	6,666,374
Total business-type activities expense	18,627,639	15,466,725	17,419,561	17,432,079	14,934,165	13,568,200	11,810,190
Total primary government expenses	29,984,877	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	188,207	217,637	158,783	157,226	151,259	175,421	128,426
Public works	134,538	149,335	75,307	110,628	155,174	717,210	408,363
Parks, recreation, and cultural	477,141	358,254	387,853	370,169	342,453	298,384	292,739
Community development	8,461	9,678	-	-	-	-	8,090
Operating grants and contributions	2,527,695	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	3,336,042	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	2,893,750	3,022,229	2,977,336	4,706,386	4,697,202	5,630,443	4,844,933
Wastewater	3,204,475	3,383,665	3,243,368	5,762,559	5,671,837	6,688,333	5,464,684
Electric	10,680,058	9,735,008	9,824,763	9,287,602	8,339,829	7,215,153	6,375,443
Capital grants and contributions	11,806	2,823,708	817,398	2,234,966	-	-	-
Total business-type activities program revenues	16,790,089	18,964,610	16,862,865	21,991,513	18,708,868	19,533,929	16,685,060
Total primary government program revenues	20,126,131	21,980,334	19,229,428	24,813,608	20,986,744	22,120,712	18,983,908
Net (Expense) Revenue							
Governmental activities	(8,021,196)	(8,581,351)	(9,510,922)	(8,380,256)	(8,682,166)	(7,675,053)	(6,858,498)
Business-type activities	(1,837,550)	3,497,885	(556,696)	4,559,434	3,774,703	5,965,729	4,874,870
Total primary government net expense	(9,858,746)	(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 Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes							
Governmental Activities:							
Taxes							
Property taxes	\$ 2,757,576	\$ 3,159,991	\$ 2,568,973	\$ 2,379,368	\$ 1,814,074	\$ 1,657,129	\$ 1,401,475
Sales taxes	986,332	1,069,068	937,575	934,160	930,601	1,021,269	872,257
Business license tax	1,010,056	1,103,611	1,064,862	1,231,754	1,270,923	1,278,563	1,118,169
Franchise license tax	140,920	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	329,972	271,467	235,807	209,900	259,624	270,124	218,450
Cigarette tax	144,010	148,459	177,417	183,449	193,272	196,449	203,219
Hotel and motel room tax	256,929	256,849	225,343	224,213	231,472	222,157	207,628
Food and beverage tax	1,790,476	1,748,975	1,762,648	1,907,318	1,940,164	1,948,458	1,536,313
Local consumption tax	53,883	54,759	62,491	62,565	61,972	61,773	50,321
Other local taxes	4,074	4,245	-	-	-	-	-
Intergovernmental revenue	285,193	230,617	230,058	257,038	240,733	235,199	262,882
Investment earnings	22,309	25,398	135,773	265,207	210,197	95,590	37,356
Gain on sale of assets	-	-	-	-	-	-	4,607
Other	163,583	453,053	508,078	294,056	249,801	246,002	564,369
Transfers	300,000	302,145	-	-	-	-	-
Total governmental activities	8,245,313	8,954,291	8,050,290	8,111,582	7,800,550	7,613,972	6,818,334
Business-Type Activities:							
Investment earnings	252,103	329,668	738,832	1,362,743	1,145,169	762,413	299,664
Other	1,252,125	573,216	-	-	-	-	-
Transfers	(300,000)	(302,145)	-	-	-	-	-
Total business-type activities	1,204,228	600,739	738,832	1,362,743	1,145,169	762,413	299,664
Total primary government	9,449,541	9,555,030	8,789,122	9,474,325	8,945,719	8,376,385	7,117,998
Changes in Net Assets							
Governmental activities	224,117	372,940	(1,460,632)	(268,674)	(881,616)	(61,081)	(40,164)
Business-type activities	(633,322)	4,098,624	182,136	5,922,177	4,919,872	6,728,142	5,174,534
Total primary government	\$ (409,205)	\$ 4,471,564	\$ (1,278,496)	\$ 5,653,503	\$ 4,038,256	\$ 6,667,061	\$ 5,134,370

Note: Trend data is only available since 2005 due to implementation of GASB 34

TABLE 3

TOWN OF CULPEPER, VIRGINIA

FUND BALANCES – GOVERNMENTAL FUNDS

Last Seven Fiscal Years

(modified accrual basis of accounting)

	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Pre-GASB54:						
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>
	2011					
Post-GASB54:						
General Fund						
Nonspendable	\$ 58,070					
Restricted	265,133					
Committed	83,125					
Assigned	4,557,951					
Uassigned	4,000,756					
Total general fund	<u>\$ 8,965,035</u>					
All Other Governmental Funds						
Nonspendable	\$ 542,416					
Total all other governmental funds	<u>\$ 542,416</u>					

Note: Trend data is only available since 2005.

⁽¹⁾ These totals are as previously reported. A prior period adjustment was required 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)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues										
Taxes	\$ 7,432,462	\$ 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
Permits, privilege fees, and licenses	278,571	256,426	178,108	201,372	231,778	757,956	375,778	312,347	224,746	121,763
Fines and forfeitures	123,623	166,292	158,783	157,226	151,259	175,421	128,426	186,078	163,223	82,146
Investment earnings	232,691	249,704	356,434	493,722	418,812	303,218	237,078	280,759	126,168	170,195
Charges for services	200,374	92,425	62,041	62,613	57,188	50,010	133,693	157,829	155,288	170,737
Other	122,168	401,587	510,323	297,707	249,847	246,002	564,368	601,359	140,600	94,763
Recovered costs	2,052,104	1,630,016	1,544,137	1,461,127	1,168,821	758,563	703,636	622,077	554,569	467,368
Grant proceeds	-	-	25,090	87,655	-	-	-	-	-	-
Intergovernmental	2,975,718	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
Total revenues	13,417,711	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
Expenditures										
General government	2,491,505	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
Public safety	3,920,633	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
Public works	2,820,311	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
Parks, recreation, and cultural	654,533	489,512	512,386	582,890	516,086	452,943	432,798	361,605	330,906	296,693
Health and welfare	-	-	11,378	5,129	6,907	7,370	7,703	7,393	6,686	-
Community development	1,140,210	1,233,053	1,115,101	1,069,575	1,052,548	1,189,295	1,234,575	769,056	729,458	666,289
Capital projects	1,628,829	2,174,668	3,408,564	2,557,650	1,263,391	1,836,753	637,097	4,232,816	746,612	964,993
Debt service:										
Principal	573,103	498,974	835,589	406,721	399,388	388,500	376,465	263,790	303,115	233,337
Interest	412,271	393,527	299,844	273,288	168,525	148,077	159,260	127,178	17,270	120,087
Bond issuance costs	150,834	27,991	-	-	-	-	-	-	-	-
Total expenditures	13,792,229	13,509,302	16,060,238	13,484,988	11,995,199	11,584,654	9,867,398	12,098,827	7,809,510	7,552,431
Excess of revenues over (under) expenditures	(374,518)	(411,822)	(4,130,601)	(1,108,911)	(721,222)	(645,247)	(39,128)	(2,839,548)	61,161	100,716
Other Financing Sources (Uses)										
Proceeds from borrowing	10,223,397	5,629,000	540,124	1,607,021	3,750,000	-	-	2,800,000	-	-
Bond premium on issuance	804,730	-	-	-	-	-	-	-	-	-
Payments to escrow agent	(10,877,293)	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	4,607	14,706	54,261	-
Transfers in	300,000	302,145	-	-	-	-	-	-	-	-
Total other financing sources (uses)	450,834	5,931,145	540,124	1,607,021	3,750,000	-	4,607	2,814,706	54,261	-
Net change in fund balances	\$ 76,316	\$ 5,519,323	\$ (3,590,477)	\$ 498,110	\$ 3,028,778	\$ (645,247)	\$ (34,521)	\$ (24,842)	\$ 115,422	\$ 100,716
Debt service as a percentage of noncapital expenditures	8.10%	7.87%	9.86%	6.64%	5.59%	5.83%	6.16%	5.23%	4.75%	5.67%

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		
2011	\$ 1,287,542,000	\$ 133,963,333	\$ 20,757,388	\$ 48,045,998	\$ 1,911,743	\$ 1,492,220,462	0.19
2010	1,785,785,500	139,139,665	22,495,201	40,564,090	1,668,322	1,989,652,778	0.15
2009	1,563,586,200	136,139,100	21,760,395	35,383,007	983,329	1,757,852,031	0.13
2008	963,769,900	142,842,648	18,341,320	19,440,651	667,460	1,145,061,979	0.16
2007	817,689,900	122,697,893	14,444,109	23,007,051	589,037	978,427,990	0.17
2006	693,113,200	101,456,447	13,660,456	29,229,543	884,246	838,343,892	0.19
2005	636,202,400	94,391,470	23,099,925	41,051,206	1,394,951	796,139,952	0.19
2004	454,810,600	96,799,579	27,810,693	25,052,826	342,211	604,815,909	0.27
2003	444,808,500	87,004,208	25,713,679	34,704,097	414,810	592,645,294	0.27
2002	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
2011	0.13	1.00	0.80	0.11	1.00	0.74	3.50
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

TABLE 7

TOWN OF CULPEPER, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Six Years Ago

June 30, 2011

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Culpeper Memorial Hospital, Inc	Medical	\$ 24,505,700	1.80%
Society for Worldwide Interbank Transfers	Banking operations	18,398,500	1.40%
Dominion Square-Culpeper LLC	Shopping center	12,896,100	1.00%
Wal-Mart Real Estate Business Properties	Retail/grocery	10,905,600	0.82%
Continental 181 Fund LLC	Manufacturing	9,861,100	0.74%
Masco Builder Cabinet Group	Manufacturing	6,541,200	0.49%
CMH Health Corporation	Medical	6,490,900	0.48%
Culpeper Shopping Center	Shopping center	6,400,100	0.48%
Southridge/Culpeper LP	Shopping center	6,384,600	0.48%
Culpeper House Limited Partnership	Multi-family housing	6,274,200	0.47%

June 30, 2005

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Society for Worldwide Interbank	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%

Note: Information available only for 2005 to present.

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	Total Direct Tax Rate (1)
2011	\$ 2,869,395	\$ 2,834,635	98.79%	\$ -	\$ 2,834,635	98.79%	\$ 223,773	7.80%	0.19
2010	2,823,203	2,534,180	89.76%	112,132	2,646,312	93.73%	283,471	10.04%	0.15
2009	2,392,938	2,282,979	95.40%	32,542	2,315,521	96.76%	215,101	8.99%	0.13
2008	1,807,196	1,781,320	98.57%	32,932	1,814,252	100.39%	94,159	5.21%	0.16
2007	1,624,710	1,567,012	96.45%	23,148	1,590,160	97.87%	101,454	6.24%	0.17
2006	1,585,440	1,562,953	98.58%	48,412	1,611,365	101.64%	104,261	6.58%	0.19
2005	1,533,742	1,490,096	97.15%	27,609	1,517,705	98.95%	89,081	5.81%	0.19
2004	1,619,076	1,545,834	95.48%	59,057	1,604,891	99.12%	115,221	7.12%	0.27
2003	1,610,210	1,561,918	97.00%	50,848	1,612,766	100.16%	104,998	6.52%	0.27
2002	1,635,950	1,562,672	95.52%	52,403	1,615,075	98.72%	107,054	6.54%	0.28

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			
2011	\$ 11,960,756	\$ 3,418,401	\$ 21,071,351	\$ 4,334,490	\$ -	\$ 40,784,998	5.44%	\$ 2,490
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

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		
2011	\$ 40,784,998	2.73%	\$ 2,490
2010	43,522,980	2.19%	3,103
2009	39,042,251	2.22%	521
2008	40,018,166	0.47%	533
2007	17,313,368	0.62%	456
2006	14,982,255	0.38%	263
2005	16,278,843	0.49%	316
2004	15,995,177	0.56%	394
2003	10,459,687	0.32%	182
2002	10,616,620	0.37%	226

TABLE 11

TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Debt limit	\$ 133,558,800	\$ 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
Total net debt applicable to limit	11,960,756	13,097,918	7,967,892	8,242,832	7,065,072	3,714,465	4,102,966	4,479,431	1,943,221	2,183,182
Legal debt margin	<u>\$ 121,598,044</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit	<u>8.96%</u>	<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>

Legal Debt Margin Calculation for Fiscal Year 2011

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>(11,960,756)</u>
Legal debt margin	<u>\$ 121,598,044</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	
2011	\$16,778,283	\$14,392,590	\$ 2,385,693	\$ 1,268,044	\$ 1,236,347	0.95
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

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 Enrollment	Unemployment Rate
2011	16,379	N/A	\$ 71,230	38	3,247	7.30%
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%

Source: Census Data and Town of Culpeper Planning Department.

N/A: Not available

TABLE 14

TOWN OF CULPEPER, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Six Years Ago

June 30, 2011

	Employer	Product/Service	Total Estimated Employees	Percent of Workforce
1	Culpeper County Schools	Public Agency	1190	5.2%
2	Culpeper Regional Hospital	Health Care	640	2.8%
3	Walmart	Commercial Retailer	435	1.9%
4	County of Culpeper Government	Public Agency	415	1.8%
5	Continental Automotive	Factory	275	1.2%
6	CINTAS	Service Business	250	1.1%
7	VA Department of Transportation (VDOT)	Public Agency	200	0.9%
8	Culpeper Health and Rehabilitation Center	Health Care	175	0.8%
9	Town of Culpeper	Public Agency	150	0.6%
10	Merchants Grocery Co., Inc.	Wholesaler	150	0.6%

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 through present.

TABLE 15

TOWN OF CULPEPER, VIRGINIA

FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION
Last Four Fiscal Years

Function	2011	2010	2009	2008
General Government				
Management services (includes Council = 4.5)	7	7	7	8
Finance	10	10	9	10
Planning	4	3	4	4
Building	1	1	1	0
Other (including Clerk, Information Technology, Engineering, Tourism)	9	11	13	11
Public Safety				
Officers	41	41	40	46
Civilians	8	8	5	6
Public Works				
Refuse collection	5	5	5	5
Streets	13	13	13	14
Other	4	5	5	4
Parks and Recreation				
Parks	5	7	7	7
Other	3	3	3	3
Water and Wastewater Operations	31	23	31	30
Electric Operations	17	18	17	21

Note: No information available prior to 2008.

Source: Town's payroll records.

TABLE 16

TOWN OF CULPEPER, VIRGINIA
OPERATING INDICATORS BY FUNCTION
Last Four Fiscal Years

Function	2011	2010	2009	2008
Public Safety				
Traffic violations	3,471	4,086	4,149	5,242
Parking violations	1,643	2,530	3,265	3,391
Arrests	1,320	499	-	-
Total crimes	1,823	1,845	1,654	494
Public Works				
Street paving – crack sealant in pounds	30,000	30,000	30,000	-
Street paving – milling in sq. yds.	9,575	33,347	17,870	-
Street paving – bituminous concrete in tons	4,504	4,839	6,645	-
Recycling – cardboard in pounds	89,320	90,460	74,000	83,000
Recycling – newspaper in pounds	-	-	18,500	28,390
Water Operations				
Number of service connections	6,507	6,466	6,439	6,371
Average daily consumption in gallons	1,760,000	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	4,000,000
Wastewater Operations				
Number of service connections	6,238	6,190	6,184	6,069
Average daily consumption in gallons	2,620,000	3,000,000	2,400,000	2,770,000
Maximum daily capacity of plant in gallons	6,000,000	6,000,000	4,000,000	4,000,000
Electric Operations				
Number of service connections	5,063	4,987	4,921	4,885
Average monthly consumption in kilowatt-hours	1,673	1,466	1,592	N/A
Highest system peak demand in megawatts	25.72	25.70	25.22	28.00

Note: No information available prior to 2008.

Source: Internal data from various departments.

TABLE 17

TOWN OF CULPEPER, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION
Last Four Fiscal Years

Function	2011	2010	2009	2008
Public Safety				
Stations	1	1	1	1
Number of patrol units	33	33	29	32
Public Works				
Streets (miles)	64	62	62	58
Street & yard lights	1,133	1,133	1,175	1,175
Traffic signals	15	15	14	14
Water Operations				
Miles of water main	99	99	99	98
Number of fire hydrants	678	678	678	638
Wastewater Operations				
Miles of sanitary sewer	95	95	95	95
Miles of storm sewer	20	20	20	20
Number of treatment plants	1	1	1	1
Number of pumping stations	9	9	9	9
Electric Operations				
Miles of overhead lines (miles)	27.66	N/A	N/A	N/A
Miles of underground lines (miles)	41.78	N/A	N/A	N/A
Number of sub-stations (115 kV)	1	1	1	1
Number of delivery points (34.5 kV)	0	1	2	2

Note: No information available prior to 2008. Certain electric operation information not available prior to 2011.

Source: Internal data from various departments.

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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 (the "Town"), as of and for the year ended

June 30, 2011 which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are further described in the accompanying schedule of findings and questions costs as Items 11-2 and 11-3.**

We noted certain other matters that we reported to management of the Town in a separate letter dated December 23, 2011.

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

This report is intended solely for the information and use of the finance 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
December 23, 2011

**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 (the "Town") 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, 2011. 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, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is 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 11-1.

Internal Control Over Compliance

Management of the Town 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
December 23, 2011

TOWN OF CULPEPER, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

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, 2011

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, 2011

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:

This comment was applicable in the prior year as well. 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.
- 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, 2011

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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

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:

This comment was also applicable in the prior year. The auditee concurs with this recommendation.

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

11-1: Community Development Block Grant/State's Program – CFDA 14.228

Condition:

We noted there were three out of five reimbursements requested and received where the money was not disbursed in the five-day period required.

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.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

11-2: Approval of Exonerations and Abatements

Condition:

We noted that for each of the ten sample items selected, there was no approval for the exoneration or abatement.

Recommendation:

Tax adjustments received from the County should be reviewed and signed off on by a Town employee, preferably the Treasurer, ensuring the Town agrees with the County's action.

Management's Response:

The auditee concurs with this recommendation and has implemented an approval process.

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

11-3: Budget Overages

Condition:

It was noted that the Town exceeded its final budget in certain departments which is considered a violation of *Virginia State Code*.

Recommendation:

The Town should implement a policy to prevent expenditures in excess of final amended budget amounts.

Management's Response:

The auditee concurs with this recommendation.

TOWN OF CULPEPER, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

A. 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.

Current Status:

We detected a similar finding in the current year.