

TOWN OF CULPEPER, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013

TREASURER'S OFFICE

TOWN OF CULPEPER, VIRGINIA
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INTRODUCTORY SECTION



TOWN OF CULPEPER

TREASURERS OFFICE

400 S. Main St., Suite 109 • Culpeper, VA 22701
(540) 829-8220 • FAX (540) 829-8239
www.culpeperva.gov

January 28, 2014

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, 2013. This report was audited by the independent certified public accounting firm of Brown Edwards & 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 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, that 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 the population grew at a slower rate during the last few years. The Town is positioned in the D.C./Northern Virginia growth ring with 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 prior year's growth and development shows that new opportunities exist for businesses that have either located in or are considering building in the area.

Due to this, the outlook for the Town remains overall upbeat. The Town remains a primary commercial and service area. The Town is fortunate to rely on taxes (i.e., meals) as sources of revenues to balance 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.

MAJOR INITIATIVES IN FY13

FY13 brought a continued focus on improvement of Town operations and planning for a growing community. The following either began or continued during the fiscal year:

- Water Supply - The Town continues work to identify additional and supplemental sources of water and is working with a company to identify well sites within the County.
- 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.
- Automated Meter Reading - This project is funded by the Water Fund, Waste-Water 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. AMR provides more accurate and timely meter readings, helps reduce the frequency of estimated readings, allows customers to view their energy/water usage on a daily basis, and eliminates the need to hire additional personnel and equipment to meet the demands of the growing customer base.
- Long-term Financial Planning - This allows the Town the ability to meet its upgrade and financing needs without negatively impacting the tax base and the Town's bond rating. The Town has developed a 5-year plan for replacement of fleet vehicles for General Fund and Enterprise Fund departments and this plan coupled with the Town's Capital Improvements Plan serves as the basis for projects in our Master Plan.

MAJOR INITIATIVES IN THE FUTURE

FY13 brings a continued focus on improvement of Town operations and planning for a growing community.

- Transportation and related projects continue to be a major focus in the future. The Town is actively working with VDOT on several transportation improvement projects. Engineering work is underway for the Town's Inner Loop project; the West Street widening project and several other lower-level street and alleyway projects began in FY13.
- 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 are all part of a cooperative approach of economic development that includes the Town partnering with the Chamber of Commerce, Culpeper Renaissance Incorporated and the County of Culpeper Economic Development department.
- Infrastructure Maintenance and Improvements are critical for any business and is a prime focus for the Town. This includes the Town's water and wastewater system and electrical system, its buildings, equipment and vehicles. The Town is in its third full year of implementation of this Financial Master.

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.

Highlights during and subsequent to the fiscal year 2013 are:

Revenue Collections

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.

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 review. Necessary improvements are implemented to maintain a responsive service level to the Town citizens and employees.

Utilize Technology

The Town of Culpeper has implemented its Automatic Meter Reading, which is a new improved utility reader.

Staffing (Subsequent events)

During and after the fiscal year came to a close, we have had a few senior positions turn over. Kim Alexander, the Town Manager left in January 2013 after less than two years, and Ron Mabry retired in June 2013 after four years with the Town. During the interim of a search for Kim Alexander's and Ron Mabry's replacement, Chris Hively was the Acting Town Manager and Jennifer Landreth was the Acting Town Treasurer. Jennifer, Town's Deputy Treasurer led the Treasurer's office's day-to-day operations, year-end closing and coordination of year-end external audit and reporting. Following a search, Pon Chen Yusuf was hired as Town Treasurer/Finance Director in September 2013 to replace Ron Mabry. Pon was an external hire and was previously Investment Officer/Accounting Manager of Fairfax County Retirement Agency; prior to that, she was Accounting Manager at the City of Manassas for the Department of Finance and Administration. Pon is a licensed CPA with a Master in Accountancy. Dewey Cashwell was hired in December 2013 as Town Manager to replace Kim Alexander. He has a Master in Human Resources. He has worked in public administration and local government for more than 30 years, most recently as City Manager in Bristol.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The Town's financial information presented in this report is in accordance with U.S. generally accepted accounting principles. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. 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 judgments by management.

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, 2012. 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 principles 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 to determine its eligibility for another certificate.

Acknowledgments. The preparation of the Comprehensive Annual Financial Report was outsourced and 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. This report is available to the public via the Town's website located at www.culpeperva.gov/officials/treasurer/.

Respectfully submitted,



Pon Chen Yusuf
Town Treasurer / Director of Finance



Government Finance Officers Association

**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, 2012

Executive Director/CEO

TOWN OF CULPEPER, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

TOWN COUNCIL

Calvin L. Coleman, Jr., Mayor
Michael T. Olinger, Vice-Mayor

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

David B. Lochridge
William M. Yowell
James C. Risner

APPOINTED OFFICIALS

ACTING TOWN MANAGER
Chris Hively

TOWN CLERK
Kimberly D. Allen

TREASURER/DIRECTOR OF FINANCE
Pon Yusuf

TOWN ATTORNEY
Martin R. Crim

DEPARTMENT HEADS

DIRECTOR OF LIGHT AND POWER
Michael Stover

DIRECTOR OF PUBLIC WORKS
Jim Hoy

CHIEF OF POLICE
Chris Jenkins

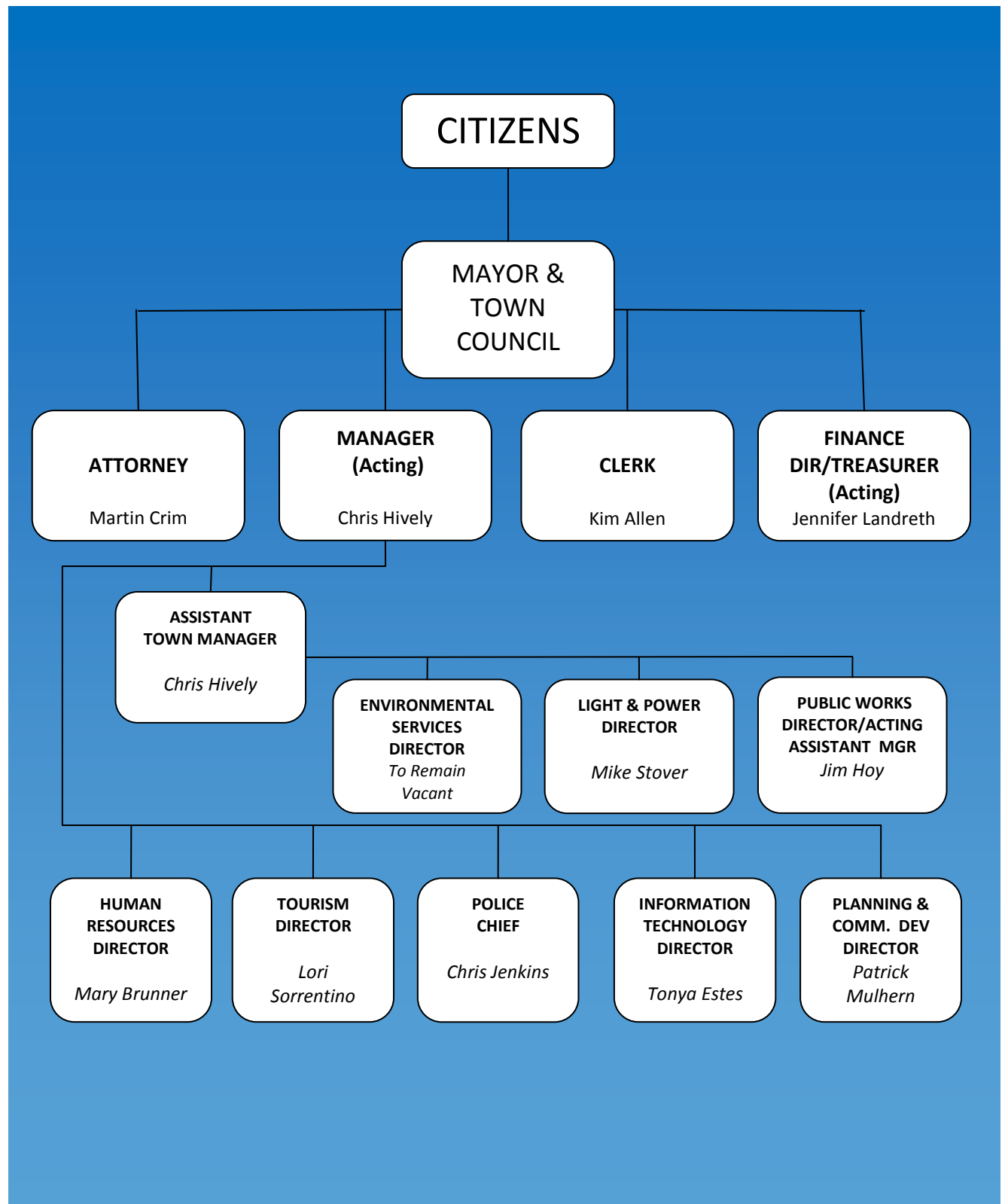
**DIRECTOR OF PLANNING AND
COMMUNITY DEVELOPMENT**
Patrick Mulhern

DIRECTOR OF INFORMATION TECHNOLOGY
Tonya Estes

TOURISM DIRECTOR
Lori Sorrentino

DIRECTOR OF ENVIRONMENTAL SERVICES
Chris Hively

**DIRECTOR OF HUMAN
RESOURCES**
Mary Brunner



TOC Organizational Chart
Amended by Acting Town Manager
September 12, 2013

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns*, and the *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The introductory section and other supplementary information and 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 and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and schedule of expenditures of federal awards are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2014, 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* in considering the Town of Culpeper's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
January 28, 2014

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, 2013 and 2012. 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 \$80,177,452 (net position). Of this amount, \$27,753,778 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$1,102,200, which is primarily attributable to less grant money being received as well as less interest earned on investments and higher departmental expenses for 2013.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$11,699,157, an increase of \$1,653,583 in comparison with the prior year. Approximately 7.04% of this total amount, \$823,784 or 4.66% of total general fund expenditures is available for spending at the government's discretion (unassigned fund balance).
- The Town's total debt increased by \$7,706,337 (18.9%) during the current fiscal year due to debt service pay down and \$10,000,000 issuance in General Improvement Obligation Bonds.

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 non-major 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 positions may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$80,177,452 at the close of the most recent fiscal year.

Government-Wide Financial Analysis (Continued)

A portion of the Town's net position, \$51,120,076 (63.8%), 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 position, \$1,303,598 (1.6%), is restricted for the cemetery fund. The remaining balance of *unrestricted net position* (34.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

	The Town's Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 14,619,032	\$ 12,647,405	\$ 29,118,228	\$ 25,264,787	\$ 43,737,260	\$ 37,912,192
Capital assets	33,075,789	30,248,862	57,950,764	57,503,278	91,026,553	87,752,140
Total assets	47,694,821	42,896,267	87,068,992	82,768,065	134,763,813	125,664,332
Long-term liabilities	16,313,573	13,330,962	33,155,385	28,338,951	49,468,958	41,669,913
Current liabilities	2,533,225	2,186,730	2,584,178	2,732,437	5,117,403	4,919,167
Total liabilities	18,846,798	15,517,692	35,739,563	31,071,388	54,586,361	46,589,080
Net position						
Net investment in capital assets	25,529,232	17,766,505	25,590,844	29,971,833	51,120,076	47,738,338
Restricted	1,303,598	598,758	-	-	1,303,598	598,758
Unrestricted	2,015,193	9,013,312	25,738,585	21,724,844	27,753,778	30,738,156
Total net position	\$ 28,848,023	\$ 27,378,575	\$ 51,329,429	\$ 51,696,677	\$ 80,177,452	\$ 79,075,252

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

The Town's net position increased by \$1,102,200, or 1.4%, during the current fiscal year. The key elements of this change are related to higher departmental expenses, offset with more interest earned on investments and more grant money received during the fiscal year.

Governmental Activities – Governmental activities increased the Town's net position by \$1,469,448. Key elements of this increase are as follows:

- Higher expenses as a total in departmental levels.
- More interest was paid out for long-term debt.
- More grant revenue was received from the State and the Federal Government.
- More interest earned on investments.

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

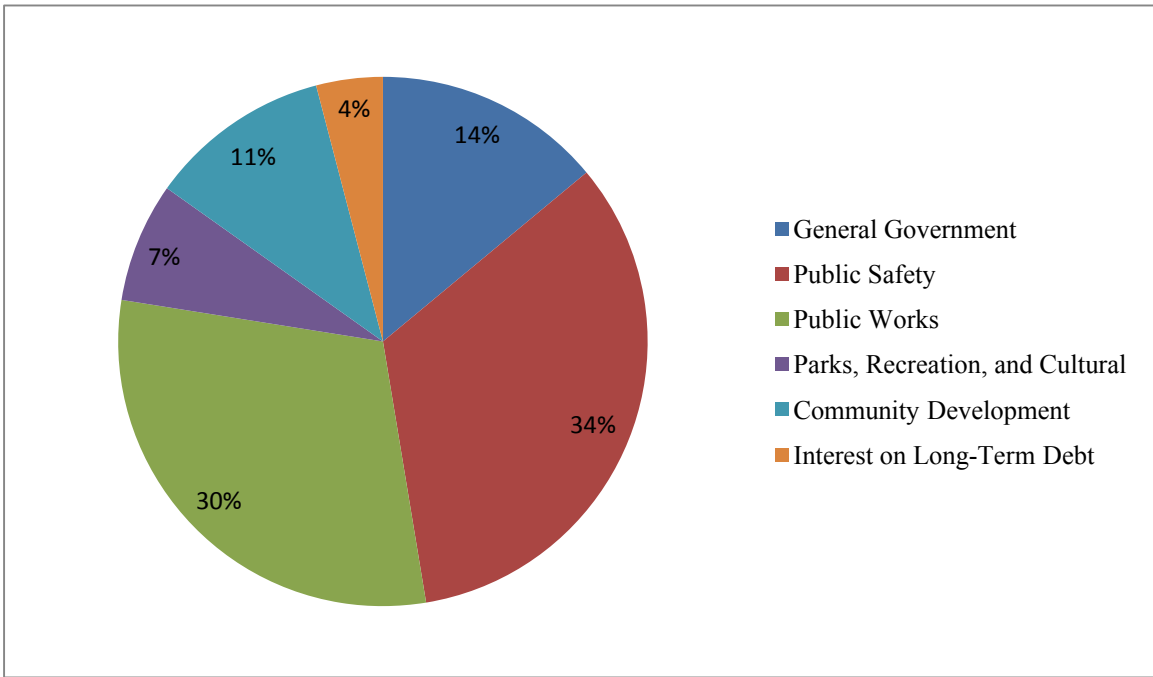
Government-Wide Financial Analysis (Continued)

Business-type Activities – Business-type activities decreased the Town's net position by \$367,248. Key elements of this decrease are as follows:

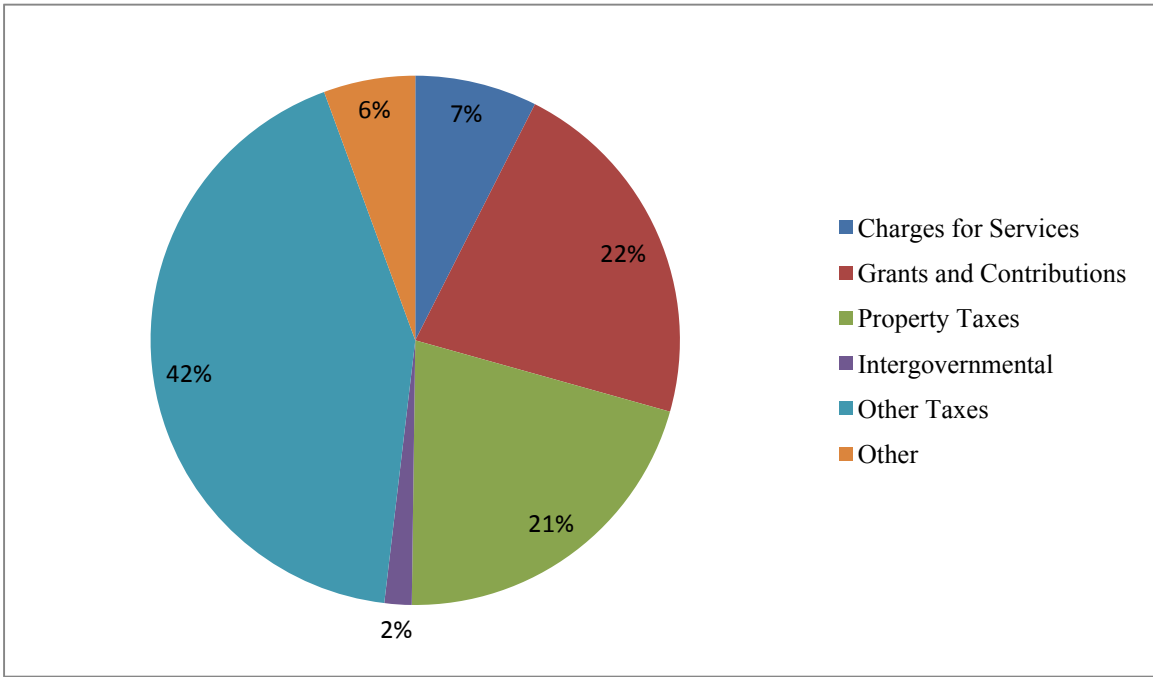
- Less interest earned on investments; and
- Higher water and wastewater departmental expenses.

	The Town's Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$ 1,040,152	\$ 882,390	\$ 19,341,539	\$ 17,469,397	\$ 20,381,691	\$ 18,351,787
Operating grants and contributions	2,088,055	1,892,927	-	-	2,088,055	1,892,927
Capital grants and contributions	959,384	-	22,000	2,083	981,384	2,083
General revenues						
Property taxes	2,905,805	2,764,759	-	-	2,905,805	2,764,759
Other taxes	5,924,205	5,061,340	-	-	5,924,205	5,061,340
Intergovernmental revenue unrestricted	231,473	443,255	-	-	231,473	443,255
Investment earnings	25,279	13,663	46,910	216,685	72,189	230,348
Other	754,774	54,908	-	1,433,610	754,774	1,488,518
Total revenues	13,929,127	11,113,242	19,410,449	19,121,775	33,339,576	30,235,017
Expenses						
General government	1,820,939	2,014,118	-	-	1,820,939	2,014,118
Public safety	4,355,486	3,982,363	-	-	4,355,486	3,982,363
Public works	3,927,287	3,609,893	-	-	3,927,287	3,609,893
Parks, recreation, and cultural	952,084	759,713	-	-	952,084	759,713
Community development	1,448,109	1,374,210	-	-	1,448,109	1,374,210
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	529,532	430,650	-	-	529,532	430,650
Water	-	-	3,173,641	3,080,472	3,173,641	3,080,472
Wastewater	-	-	5,438,022	5,322,081	5,438,022	5,322,081
Electric	-	-	10,592,276	11,195,220	10,592,276	11,195,220
Total expenses	13,033,437	12,170,947	19,203,939	19,597,773	32,237,376	31,768,720
Excess (deficiency) before transfers	895,690	(1,057,705)	206,510	(475,998)	1,102,200	(1,533,703)
Transfers	573,758	300,000	(573,758)	(300,000)	-	-
Change in net position	1,469,448	(757,705)	(367,248)	(775,998)	1,102,200	(1,533,703)
Net position – July 1	27,378,575	28,136,280	51,696,677	52,472,675	79,075,252	80,608,955
Net position – June 30	\$28,848,023	\$27,378,575	\$51,329,429	\$51,696,677	\$80,177,452	\$79,075,252

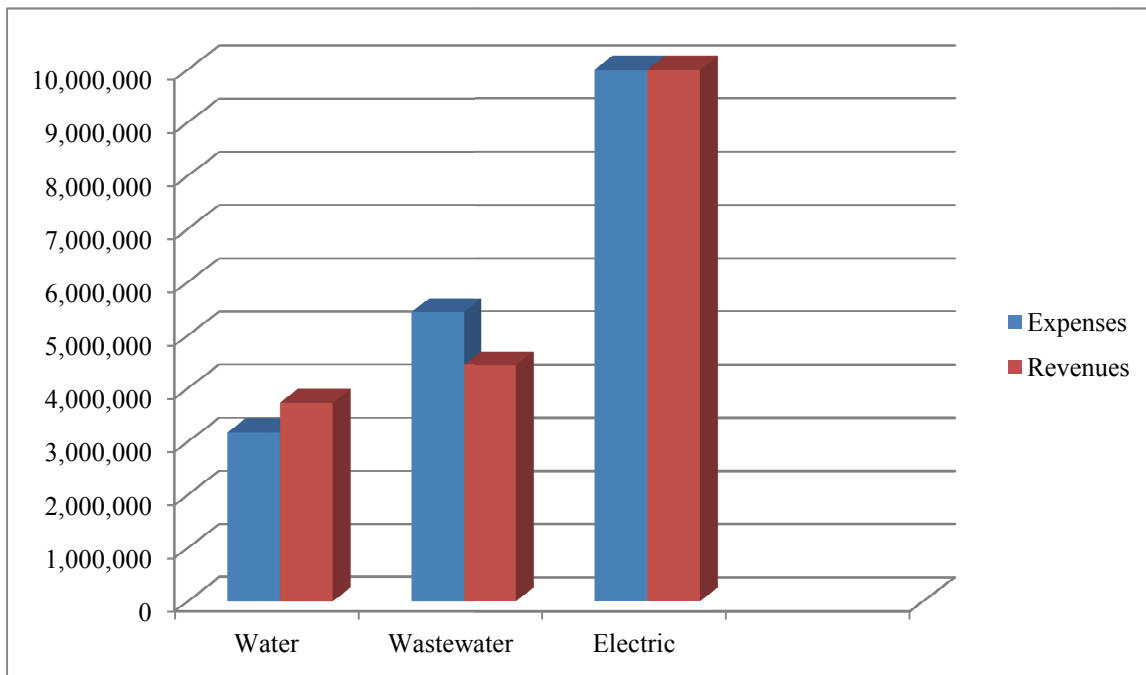
Expenses – Governmental Activities



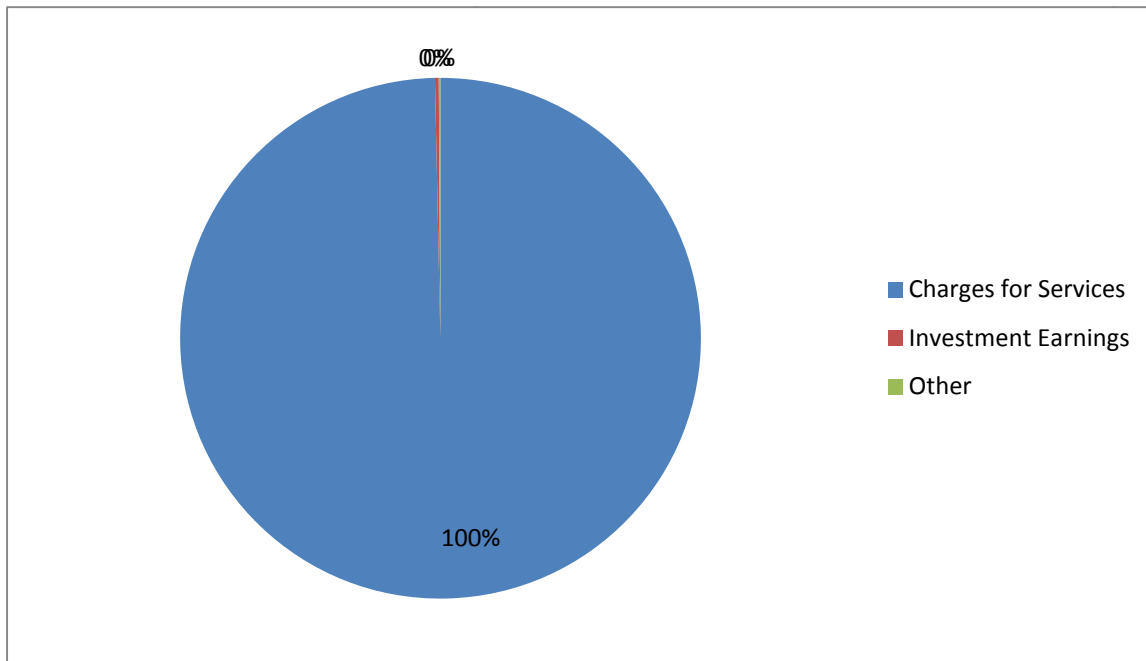
Revenues by Source – Governmental Activities



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.

As of the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$11,699,157, an increase of \$1,653,583 in comparison with the prior year. Approximately 7.0% of this total amount – that is, \$823,784 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 4.66% of total governmental fund expenditures, while total fund balance represents 66% of that same amount.

The Town's general fund balance increased \$1,613,637 in FY2013. The primary reason behind this increase is:

- General obligation bonds were received in the amount of \$3,720,000 to pay for assigned capital projects.

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 position of the water fund at the end of the year equaled \$18,136,770; the wastewater fund equaled \$4,417,595; and the unrestricted net position for the electric fund amounted to \$3,184,220. The total decrease in net position was \$367,248. 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 \$8,639,354. Highlights of amounts carried forward to FY 13 from FY 12 are as follows:

- \$4,727,982 for Route 220 Widening/Roundabout construction;
- \$278,673 for Western Inner Loop Roadway project;
- \$1,474,199 for Historic Streetscapes & Entryways Phase II – Pedestrian Sidewalks – Madison Highway project funds; and
- \$1,591,422 for various operating departments for incomplete projects.

General Fund Budgetary Highlights (Continued)

Differences between the final amended budget and actual results amounted to \$11,029,913. Highlights are as follows:

- Minimal was spent on General Fund Projects for FY13 because projects were not started as expected, or were not completed in FY13 as expected creating a difference of \$14,815,123 between final budget numbers and actual.
- The Parks, Recreation, and Cultural departments minimized expenses for the year creating a variance of \$69,635 between final budget and actual.
- Only \$3,720,000 of a \$10,000,000 bond issuance was allocated to the general fund. The remaining balance was allocated to the proprietary funds.

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, 2013, amounts to \$91,026,553 (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 3.73% (a 9.35% increase for governmental activities and a 0.78% 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,070,196	\$ 1,069,505	\$ 1,340,731	\$ 1,340,731	\$ 2,410,927	\$ 2,410,236
Buildings and improvements	21,678,053	21,445,891	96,159,796	95,912,167	117,837,849	117,358,058
Machinery and equipment	6,480,154	5,489,536	6,940,019	3,530,061	13,420,173	9,019,597
Infrastructure	34,077,909	33,161,116	-	-	34,077,909	33,161,116
Construction in progress	3,523,319	989,357	2,496,688	2,967,405	6,020,007	3,956,762
Less accumulated depreciation	(33,753,842)	(31,906,543)	(48,986,470)	(46,247,086)	(82,740,312)	(78,153,629)
Total	\$ 33,075,789	\$ 30,248,862	\$ 57,950,764	\$ 57,503,278	\$ 91,026,553	\$ 87,752,140

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

Economic Factors

- Overall tax receipts related to business and tourism continue to show strength and moderate growth.
- All tax receipts (real estate, personal property, local sales, meals and lodging) show increases.
- Building and development activity over the past year showed signs of strengthening with certificates of occupancy, zoning permits and building permits increasing over the previous fiscal year.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of \$48,486,243. 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	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 15,016,426	\$ 12,081,167	\$ 32,364,574	\$ 27,514,833	\$ 47,381,000	\$ 39,596,000
Other obligations payable	-	-	67,430	109,073	67,430	109,073
Bond premium	742,058	785,708	605,766	641,123	1,347,824	1,426,831
Loss on refunding	(109,032)	(119,935)	(200,979)	(232,063)	(310,011)	(351,998)
Total	<u>\$ 15,649,452</u>	<u>\$ 12,746,940</u>	<u>\$ 32,836,791</u>	<u>\$ 28,032,966</u>	<u>\$ 48,486,243</u>	<u>\$ 40,779,906</u>

The Town's total debt increased by \$7,706,337 or 18.9% during the current fiscal year due to the issuance of \$10,000,000 in General Obligation Public Improvement Bond in 2013 and scheduled debt payoff.

The Town recently had a rating upgrade from an AA- to an AA rating from Standard & Poor's and Moody's for its outstanding general obligation debt, affirming the Town's stable financial outlook.

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 POSITION

June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority	Parking Authority
ASSETS					
Cash and cash equivalents (Note 2)	\$ 2,995,620	\$ 25,138,652	\$ 28,134,272	\$ 79,927	\$ 8,624
Receivables, net (Note 3)	550,957	2,351,988	2,902,945		2,111
Notes receivable (Note 3)	-	-	-	1,024,369	-
Accrued interest receivable	-	-	-	-	-
Due from component unit (Note 4)	39,736	-	39,736		
Due from other governmental units (Note 5)	970,095	22,000	992,095	-	-
Inventories	-	1,024,212	1,024,212	-	-
Cash and cash equivalents, restricted (Note 2)	9,689,783	-	9,689,783	50,589	-
Prepays	146,178	104,506	250,684	-	-
Deferred expenses	226,663	476,870	703,533	-	-
Capital assets: (Note 6)				-	-
Nondepreciable	4,593,515	3,837,419	8,430,934	-	-
Depreciable, net	28,482,274	54,113,345	82,595,619	-	-
Total assets	47,694,821	87,068,992	134,763,813	1,154,885	10,735
LIABILITIES					
Accounts payable and accrued liabilities	407,940	925,089	1,333,029	-	-
Accrued payroll and related liabilities	480,877	242,961	723,838	-	-
Accrued interest payable	193,685	433,423	627,108	26,599	-
Unearned revenue	-	-	-	11,359	-
Due to primary government	-	-	-	-	39,736
Bonds and security deposits	1,450,723	982,705	2,433,428	-	-
Noncurrent liabilities: (Note 7)					
Due within one year	1,307,683	1,802,766	3,110,449	12,631	-
Due in more than one year	15,005,890	31,352,619	46,358,509	1,024,369	-
Total liabilities	18,846,798	35,739,563	54,586,361	1,074,958	39,736
NET POSITION					
Net investment in capital assets	25,529,232	25,590,844	51,120,076	-	-
Restricted:					
Unspent grant proceeds and asset seizure funds	271,364	-	271,364	-	-
Proffers	393,530	-	393,530	-	-
Cemetery fund-nonexpendable	638,704	-	638,704	-	-
Unrestricted	2,015,193	25,738,585	27,753,778	79,927	(29,001)
Total net position	\$ 28,848,023	\$ 51,329,429	\$ 80,177,452	\$ 79,927	\$ (29,001)

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Authority	Parking Authority
					Governmental Activities	Business- Type Activities	Totals		
							Total		
Governmental activities:									
General government administration	\$ 1,820,939	\$ 189,022	\$ -	\$ -	\$ (1,631,917)	\$ -	\$ (1,631,917)	\$ -	\$ -
Public safety	4,355,486	185,890	323,942	-	(3,845,654)	-	(3,845,654)	-	-
Public works	3,927,287	224,756	1,614,493	959,384	(1,128,654)	-	(1,128,654)	-	-
Parks, recreation, and cultural	952,084	408,606	5,000	-	(538,478)	-	(538,478)	-	-
Community development	1,448,109	31,878	144,620	-	(1,271,611)	-	(1,271,611)	-	-
Interest on long-term debt	529,532	-	-	-	(529,532)	-	(529,532)	-	-
Total governmental activities	13,033,437	1,040,152	2,088,055	959,384	(8,945,846)	-	(8,945,846)	-	-
Business-type activities:									
Water	3,173,641	3,711,935	-	22,000	-	560,294	560,294		
Wastewater	5,438,022	4,441,288	-	-	-	(996,734)	(996,734)		
Electric	10,592,276	11,188,316	-	-	-	596,040	596,040		
Total business-type activities	19,203,939	19,341,539	-	22,000	-	159,600	159,600		
Total primary government	\$ 32,237,376	\$ 20,381,691	\$ 2,088,055	\$ 981,384	(8,945,846)	159,600	(8,786,246)		
Component Units:									
Industrial development authority	\$ 133,231	\$ -	\$ 106,682	\$ -	-	-	-	(26,549)	-
Parking authority	39,564	47,277	-	-	-	-	-	-	7,713
Total component units	\$ 172,795	\$ 47,277	\$ 106,682	\$ -	-	-	-	(26,549)	7,713
General revenues:									
Property taxes					2,905,805	-	2,905,805	-	-
Meals tax					2,622,243	-	2,622,243	-	-
Sales tax					1,299,219	-	1,299,219	-	-
Business license tax					1,092,986	-	1,092,986	-	-
Bank stock tax					287,309	-	287,309	-	-
Cigarette tax					183,297	-	183,297	-	-
Hotel and motel room tax					249,896	-	249,896	-	-
Other local taxes					189,255	-	189,255	-	-
Intergovernmental revenue, unrestricted					231,473	-	231,473	-	-
Unrestricted investment earnings					25,279	46,910	72,189	-	-
Restricted investment earnings					-	-	-	26,599	-
Other					74,341	-	74,341	-	-
Special item: Annexation of state roads (Note 15)					680,433	-	680,433	-	-
Transfers (Note 4)					573,758	(573,758)	-	-	-
Total general revenues, special item, and transfers					10,415,294	(526,848)	9,888,446	26,599	-
Change in net position					1,469,448	(367,248)	1,102,200	50	7,713
NET POSITION AT JULY 1					27,378,575	51,696,677	79,075,252	79,877	(36,714)
NET POSITION AT JUNE 30					\$ 28,848,023	\$ 51,329,429	\$ 80,177,452	\$ 79,927	\$ (29,001)

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

TOWN OF CULPEPER, VIRGINIA

BALANCE SHEET –
GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
ASSETS			
Cash and cash equivalents	\$ 2,356,916	\$ 638,704	\$ 2,995,620
Cash and cash equivalents, restricted	9,689,783	-	9,689,783
Receivables, net (Note 3)	550,957	-	550,957
Prepays	146,178	-	146,178
Due from component unit	39,736	-	39,736
Due from other governmental units (Note 5)	970,095	-	970,095
Total assets	<u>\$ 13,753,665</u>	<u>\$ 638,704</u>	<u>\$ 14,392,369</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 407,940	\$ -	\$ 407,940
Accrued payroll and related liabilities	480,877	-	480,877
Deferred revenue	353,672	-	353,672
Bonds and security deposits	1,450,723	-	1,450,723
Total liabilities	<u>2,693,212</u>	<u>-</u>	<u>2,693,212</u>
Fund balances: (Note 8)			
Nonspendable	146,178	638,704	784,882
Restricted	664,894	-	664,894
Committed	8,072,276	-	8,072,276
Assigned	1,353,321	-	1,353,321
Unassigned	823,784	-	823,784
Total fund balances	<u>11,060,453</u>	<u>638,704</u>	<u>11,699,157</u>
Total liabilities and fund balances	<u>\$ 13,753,665</u>	<u>\$ 638,704</u>	<u>\$ 14,392,369</u>

TOWN OF CULPEPER, VIRGINIA

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

June 30, 2013

Total Fund Balances – Governmental Funds	\$ 11,699,157
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:

Nondepreciable	\$ 4,593,515	
Depreciable, net	<u>28,482,274</u>	
		33,075,789

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 position:

Issuance costs of \$323,272 and		
accumulated amortization of \$96,609	226,663	
Bond premiums total \$873,009 and		
accumulated amortization of \$130,951	(742,058)	
Deferred loss on refunding total \$141,741 and		
accumulated amortization of \$32,709	<u>109,032</u>	(406,363)

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

353,672

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

General obligation bonds	(15,016,426)	
Accrued interest payable	(193,685)	
Other post-employment benefits	(123,796)	
Compensated absences	<u>(540,325)</u>	
		<u>(15,874,232)</u>

Total Net Position – Governmental Activities	<u><u>\$ 28,848,023</u></u>
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TOWN OF CULPEPER, VIRGINIA

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

Year Ended June 30, 2013

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
REVENUES			
General property taxes	\$ 2,872,543	\$ -	\$ 2,872,543
Other local taxes	5,922,123	-	5,922,123
Permits, privilege fees, and regulatory licenses	255,905	-	255,905
Fines and forfeitures	129,654	-	129,654
Revenues from use of money and property	209,604	1,255	210,859
Charges for services	217,060	38,691	255,751
Other	288,051	-	288,051
Recovered costs	1,817,446	-	1,817,446
Intergovernmental	3,279,435	-	3,279,435
Total revenues	14,991,821	39,946	15,031,767
EXPENDITURES			
Current:			
General government administration	3,146,377	-	3,146,377
Public safety	4,018,716	-	4,018,716
Public works	3,110,447	-	3,110,447
Parks, recreation, and cultural	906,712	-	906,712
Community development	1,286,951	-	1,286,951
Capital projects	3,918,542	-	3,918,542
Debt service:			
Principal retirement	784,741	-	784,741
Interest and fiscal charges	442,610	-	442,610
Bond issuance costs	56,846	-	56,846
Total expenditures	17,671,942	-	17,671,942
Excess (deficiency) of revenues over expenditures	(2,680,121)	39,946	(2,640,175)
OTHER FINANCING SOURCES			
Issuance of general obligation bonds	3,720,000	-	3,720,000
Transfers in	573,758	-	573,758
Total other financing sources	4,293,758	-	4,293,758
Net change in fund balances	1,613,637	39,946	1,653,583
FUND BALANCES AT JULY 1	9,446,816	598,758	10,045,574
FUND BALANCES AT JUNE 30	<u>\$ 11,060,453</u>	<u>\$ 638,704</u>	<u>\$ 11,699,157</u>

TOWN OF CULPEPER, VIRGINIA

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

Year Ended June 30, 2013

Net Change in Fund Balances – Governmental Funds		\$ 1,653,583
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 \$3,999,174 were exceeded by depreciation expense of \$1,847,299 in the current period.		2,151,875
The sale of capitals results in removing the cost and accumulated depreciation, resulting in a gain or loss on the sale in the statement of activities.		(5,382)
Governmental funds do not report contributions of capital assets that will be used in operations because they are not relevant to the assessment of near-term liquidity.		
Special item: Road annexation		680,433
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		34,373
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position. 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	\$ 784,741	
Changes in deferred charges on bond issuance costs	(37,918)	
Proceeds from bonds	(3,720,000)	
Changes in bond premiums	43,650	
Changes in loss on refunding	(10,903)	
		(2,940,430)
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	(57,087)	
Change in other post-employment benefits	(23,012)	
Change in accrued interest payable	(24,905)	
		(105,004)
Change in Net Position – Governmental Activities		\$ 1,469,448

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2013

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 18,019,225	\$ 4,292,646	\$ 2,826,781	\$ 25,138,652
Receivables, net (Note 3)	400,557	474,546	1,476,885	2,351,988
Due from other governmental units (Note 5)	22,000	-	-	22,000
Prepays	26,250	45,774	32,482	104,506
Inventories	221,922	99,622	702,668	1,024,212
Total current assets	18,689,954	4,912,588	5,038,816	28,641,358
Noncurrent assets:				
Deferred expenses	8,931	396,443	71,496	476,870
Capital assets: (Note 6)				
Nondepreciable	2,679,819	17,308	1,140,292	3,837,419
Depreciable, net	7,236,376	38,649,564	8,227,405	54,113,345
Total noncurrent assets	9,925,126	39,063,315	9,439,193	58,427,634
Total assets	28,615,080	43,975,903	14,478,009	87,068,992
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	122,604	16,860	785,625	925,089
Accrued payroll and related liabilities	75,574	75,507	91,880	242,961
Accrued interest payable	65,382	295,010	73,031	433,423
Customer security deposits	193,861	-	788,844	982,705
Current portion of long-term debt (Note 7)	484,213	793,037	312,554	1,589,804
Compensated absences (Note 7)	63,018	70,242	79,702	212,962
Total current liabilities	1,004,652	1,250,656	2,131,636	4,386,944
Noncurrent liabilities:				
Long-term debt (Note 7)	6,180,001	19,220,369	5,846,617	31,246,987
Other post-employment benefits (Note 14)	16,989	19,814	15,588	52,391
Compensated absences (Note 7)	15,755	17,560	19,926	53,241
Total noncurrent liabilities	6,212,745	19,257,743	5,882,131	31,352,619
Total liabilities	7,217,397	20,508,399	8,013,767	35,739,563
NET POSITION				
Net investment in capital assets	3,260,913	19,049,909	3,280,022	25,590,844
Unrestricted	18,136,770	4,417,595	3,184,220	25,738,585
Total net position	\$ 21,397,683	\$ 23,467,504	\$ 6,464,242	\$ 51,329,429

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2013**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 3,047,803	\$ 3,497,739	\$ 11,101,080	\$ 17,646,622
Penalties	31,586	31,586	32,546	95,718
Other charges	45,546	31,963	54,690	132,199
Total operating revenues	3,124,935	3,561,288	11,188,316	17,874,539
OPERATING EXPENSES				
Water treatment	1,853,039	-	-	1,853,039
Wastewater collection	-	466,180	-	466,180
Wastewater treatment	-	2,598,963	-	2,598,963
Transmission and distribution	507,928	-	1,179,243	1,687,171
Power purchased (Note 10)	-	-	7,596,056	7,596,056
Administration	-	-	804,041	804,041
Other	50,289	125,448	52,428	228,165
Depreciation	540,069	1,480,281	788,361	2,808,711
Total operating expenses	2,951,325	4,670,872	10,420,129	18,042,326
Operating income (loss)	173,610	(1,109,584)	768,187	(167,787)
NONOPERATING REVENUES (EXPENSES)				
Interest income	28,328	12,757	5,825	46,910
Interest expense	(222,316)	(775,517)	(172,147)	(1,169,980)
Gain on disposal of capital assets	-	8,367	-	8,367
Tap fees	587,000	880,000	-	1,467,000
Net nonoperating revenue (expenses)	393,012	125,607	(166,322)	352,297
Income (loss) before transfers and capital contributions	566,622	(983,977)	601,865	184,510
TRANSFERS OUT (Note 4)	(87,798)	(104,385)	(381,575)	(573,758)
CAPITAL CONTRIBUTIONS	22,000	-	-	22,000
Change in net position	500,824	(1,088,362)	220,290	(367,248)
NET POSITION AT JULY 1	20,896,859	24,555,866	6,243,952	51,696,677
NET POSITION AT JUNE 30	\$ 21,397,683	\$ 23,467,504	\$ 6,464,242	\$ 51,329,429

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2013

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 3,100,832	\$ 3,517,205	\$ 11,078,840	\$ 17,696,877
Payments to suppliers	(1,380,398)	(1,960,361)	(8,511,249)	(11,852,008)
Payments to employees	(1,066,228)	(1,282,507)	(1,401,561)	(3,750,296)
Net cash provided by operating activities	654,206	274,337	1,166,030	2,094,573
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers	(87,798)	(104,385)	(381,575)	(573,758)
Net cash used in noncapital financing activities	(87,798)	(104,385)	(381,575)	(573,758)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issuance	4,150,000	-	2,130,000	6,280,000
Purchases of capital assets	(1,403,910)	(382,715)	(1,372,096)	(3,158,721)
Principal paid on capital debt	(401,594)	(770,382)	(299,926)	(1,471,902)
Capital grant	-	-	-	-
Tap fees collected	587,000	880,000	-	1,467,000
Interest paid on capital debt	(190,138)	(769,489)	(153,408)	(1,113,035)
Net cash provided by (used in) capital and related financing activities	2,741,358	(1,042,586)	304,570	2,003,342
INVESTING ACTIVITIES				
Interest received	36,363	12,757	5,825	54,945
Net cash provided by investing activities	36,363	12,757	5,825	54,945
Net increase (decrease) in cash and cash equivalents	3,344,129	(859,877)	1,094,850	3,579,102
CASH AND CASH EQUIVALENTS				
Beginning at July 1	14,675,096	5,152,523	1,731,931	21,559,550
Ending at June 30	\$ 18,019,225	\$ 4,292,646	\$ 2,826,781	\$ 25,138,652
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 173,610	\$ (1,109,584)	\$ 768,187	\$ (167,787)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	540,069	1,480,281	788,361	2,808,711
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(22,929)	(44,083)	(96,191)	(163,203)
Inventories	(27,595)	(5,319)	(14,854)	(47,768)
Prepays	(16,402)	(35,134)	(22,518)	(74,054)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(34,026)	(29,745)	(264,771)	(328,542)
Accrued payroll and related liabilities	26,758	17,031	25,277	69,066
Customer security deposits	(1,174)	-	(13,285)	(14,459)
Other post-employment benefits	3,802	3,802	2,401	10,005
Compensated absences	12,093	(2,912)	(6,577)	2,604
Net cash provided by operating activities	\$ 654,206	\$ 274,337	\$ 1,166,030	\$ 2,094,573
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 112,309	\$ -	\$ 20,356	\$ 132,665
Capitalized interest	\$ 63,086	\$ 3,256	\$ 38,375	\$ 104,717

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, Treasurer, and Town Attorney. 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 position 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, 2013

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, 2013

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.

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 services. Operating expenses for enterprise funds include the cost of providing 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, 2013

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.
- 6) 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, 2013

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, \$104,717 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 and sales 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 employees who leave the Town in good standing with 5 or more years of service at a rate of \$10 per day up to a maximum \$2,000. 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 position. 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, 2013

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 can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Council through adoption of a resolution. Only Town Council may modify or rescind the commitment.
- **Assigned** - Amounts the Town intends to use for a specified purpose; intent can be expressed by the Town Council or by the Town Manager or Treasurer, who has been designated this authority by the Town Council.
- **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, 2013

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 maintains a fiscal stability reserve amount for cash liquidity purposes. That balance should 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 should 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 position 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 \$9,141,289 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) or 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, 2013

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 and cash on hand	\$ 25,534,611	NA	67.51 %
LGIP	12,289,444	AAAm	32.49
	<u>\$ 37,824,055</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, 2013

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	25,533,261
Investments	<u>12,289,444</u>
Total deposits and investments	<u><u>\$ 37,824,055</u></u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 28,134,272
Cash and cash equivalents, restricted	<u>9,689,783</u>
Total deposits and investments	<u><u>\$ 37,824,055</u></u>

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for performance bonds of \$1,148,657, unspent bond proceeds of \$7,876,232, proffers of \$393,530, and \$271,364 of unspent grant proceeds and asset seizure funds.

In addition, the IDA held restricted cash for payments made by the Salem Volunteer Fire Department, in the amount of \$50,589. These funds will be used towards the IDA’s payment on their Rural Development loan described in more detail in Notes 3 and 7.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. Receivables

Primary Government:

Receivables for the individual funds are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Total</u>
Receivables					
Taxes	\$ 468,844	\$ -	\$ -	\$ -	\$ 468,844
Accounts	285,053	406,267	480,601	1,497,235	2,669,156
Gross receivables	753,897	406,267	480,601	1,497,235	3,138,000
Less: allowance for uncollectibles	(202,940)	(5,710)	(6,055)	(20,350)	(235,055)
Receivables, net	<u>\$ 550,957</u>	<u>\$ 400,557</u>	<u>\$ 474,546</u>	<u>\$ 1,476,885</u>	<u>\$ 2,902,945</u>

Industrial Development Authority:

In September 2012, the Industrial Development Authority (IDA), obtained a loan through Rural Development on behalf of the Salem Volunteer Fire Department. The loan was used to pay down a loan the Fire Department acquired in 2006 in order to construct and equip a fire station. The IDA is leasing the property back to the fire department for annual rent of \$47,630, which represents the principal and interest due on the loan each year and is considered a financing lease. This amount has been recorded as a notes receivable to the IDA and had a balance of \$1,024,369 at June 30, 2013. The annual requirements to amortize the long-term receivable and related interest are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 13,057	\$ 34,572
2015	13,498	34,132
2016	13,954	33,676
2017	14,425	33,205
2018	14,912	32,718
2019-2023	82,455	155,695
2024-2028	97,341	140,809
2029-2033	114,914	123,236
2034-2038	135,660	102,490
2039-2043	160,151	77,999
2044-2048	189,063	49,087
2049-2053	174,939	14,975
	<u>\$ 1,024,369</u>	<u>\$ 832,594</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. Interfund Transfers and Due from Component Units

Amounts due from component units:

The Parking Authority owed the general fund and governmental activities \$39,736 at year end for prior year borrowings from the pooled funds account.

Interfund transfers are as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
Water	General	\$ 87,798
Wastewater	General	104,385
Electric	General	381,575
		<u>\$ 573,758</u>

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

Note 5. Due From Other Governmental Units

Amounts due from other governmental units are as follows:

County of Culpeper:	
Local sales tax (General Fund)	\$ 220,943
Federal and Commonwealth of Virginia:	
FEMA (General Fund)	113,757
VDOT (General Fund)	559,235
Virginia Resource Authority (Water Fund)	22,000
Other (General Fund)	76,160
	<u>\$ 992,095</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 6. Capital Assets

The Town early implemented GASB 69, *Government Combinations and Disposals of Government Operations*, due to the annexation of Town roads from the Virginia Department of Transportation. Since the nature of the transaction was a transfer of operations, the roads were recorded at the State of Virginia's carrying value.

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 1,069,505	\$ 6,072	\$ 5,381	\$ 1,070,196
Construction in progress	989,357	2,544,675	10,713	3,523,319
Total capital assets, not depreciated	2,058,862	2,550,747	16,094	4,593,515
Capital assets, depreciated:				
Buildings and improvements	21,445,891	232,162	-	21,678,053
Machinery and equipment	5,489,536	990,618	-	6,480,154
Infrastructure	33,161,116	916,793	-	34,077,909
Total capital assets, depreciated	60,096,543	2,139,573	-	62,236,116
Less accumulated depreciation:				
Buildings and improvements	9,556,916	506,595	-	10,063,511
Machinery and equipment	4,277,195	370,773	-	4,647,968
Infrastructure	18,072,432	969,931	-	19,042,363
Total accumulated depreciation	31,906,543	1,847,299	-	33,753,842
Net capital assets, depreciated	28,190,000	292,274	-	28,482,274
Governmental activities capital assets, net	<u>\$ 30,248,862</u>	<u>\$ 2,843,021</u>	<u>\$ 16,094</u>	<u>\$ 33,075,789</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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	2,967,405	2,035,949	2,506,666	2,496,688
Total capital assets, not depreciated	4,308,136	2,035,949	2,506,666	3,837,419
Capital assets, depreciated:				
Buildings and improvements	95,912,167	247,629	-	96,159,796
Machinery and equipment	3,530,061	3,479,285	69,327	6,940,019
Total capital assets, depreciated	99,442,228	3,726,914	69,327	103,099,815
Less accumulated depreciation:				
Buildings and improvements	43,503,699	2,616,854	-	46,120,553
Machinery and equipment	2,743,387	191,857	69,327	2,865,917
Total accumulated depreciation	46,247,086	2,808,711	69,327	48,986,470
Net capital assets, depreciated	53,195,142	918,203	-	54,113,345
Business-type activities capital assets, net	<u>\$ 57,503,278</u>	<u>\$ 2,954,152</u>	<u>\$ 2,506,666</u>	<u>\$ 57,950,764</u>

Depreciation expense was charged to functions/programs as follows:

Primary Government – Governmental Activities

General government administration	\$ 352,990
Public safety	293,784
Public works	1,143,510
Parks, recreation, and cultural	42,904
Community development	14,111
Total governmental activities	<u>\$ 1,847,299</u>

Primary Government – Business-Type Activities

Water	\$ 540,069
Wastewater	1,480,281
Electric	788,361
Total business-type activities	<u>\$ 2,808,711</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 7. Long-Term Liabilities

Primary Government

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	\$ 12,081,167	\$ 3,720,000	\$ 784,741	\$ 15,016,426	\$ 842,676
Bond premium	785,708	-	43,650	742,058	43,650
Loss on refunding	(119,935)	-	(10,903)	(109,032)	(10,903)
Other post-employment benefits	100,784	23,012	-	123,796	-
Compensated absences	483,238	540,325	483,238	540,325	432,260
Governmental activities long-term liabilities	<u>\$ 13,330,962</u>	<u>\$ 4,283,337</u>	<u>\$ 1,300,726</u>	<u>\$ 16,313,573</u>	<u>\$ 1,307,683</u>
Business-Type Activities:					
General obligation bonds	\$ 27,514,833	\$ 6,280,000	\$ 1,430,259	\$ 32,364,574	\$ 1,564,324
Other obligations payable	109,073	-	41,643	67,430	21,795
Bond premium	641,123	-	35,357	605,766	34,769
Loss on refunding	(232,063)	-	(31,084)	(200,979)	(31,084)
Other post-employment benefits	42,386	10,005	-	52,391	-
Compensated absences	263,599	266,203	263,599	266,203	212,962
Business-Type activities long-term liabilities	<u>\$ 28,338,951</u>	<u>\$ 6,556,208</u>	<u>\$ 1,739,774</u>	<u>\$ 33,155,385</u>	<u>\$ 1,802,766</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	
	General Obligation Bonds	
	Principal	Interest
2014	\$ 842,676	\$ 243,813
2015	899,176	451,176
2016	926,152	429,315
2017	936,968	403,369
2018	828,240	378,319
2019-2023	4,963,893	1,436,301
2024-2028	4,082,781	507,651
2029-2033	1,536,540	87,266
	<u>\$ 15,016,426</u>	<u>\$ 3,937,210</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 7. Long-Term Liabilities (Continued)

Primary Government (Continued)

Year Ended June 30	Business-Type Activities					
	General Obligation Bonds		Other Obligations Payable		Total Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,564,324	\$ 414,370	\$ 21,795	\$ 2,090	\$ 1,586,119	\$ 416,460
2015	1,640,824	1,106,931	22,470	1,415	1,663,294	1,108,346
2016	1,689,848	1,107,625	23,165	720	1,713,013	1,108,345
2017	1,739,032	996,003	-	-	1,739,032	996,003
2018	1,858,760	934,558	-	-	1,858,760	934,558
2019-2023	6,711,107	3,913,941	-	-	6,711,107	3,913,941
2024-2028	6,017,219	2,808,851	-	-	6,017,219	2,808,851
2029-2033	6,263,460	1,741,404	-	-	6,263,460	1,741,404
2034-2038	4,880,000	670,138	-	-	4,880,000	670,138
	<u>\$ 32,364,574</u>	<u>\$ 13,693,821</u>	<u>\$ 67,430</u>	<u>\$ 4,225</u>	<u>\$ 32,432,004</u>	<u>\$ 13,698,046</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Public Improvement and Refunding Bond	4.46%	2002	2018	\$ 8,018,000	\$ -	\$ 2,343,000
General Obligation Public Improvement Bond	3.25% - 4.50%	2008	2038	17,895,000	1,190,000	15,300,000
General Obligation Public Improvement and Refunding Bond	2.86%	2009	2014	676,000	130,237	32,763
General Obligation Refunding Bond	2.75%	2010	2030	19,925,000	9,336,189	8,408,811
General Obligation Public Improvement Bond	1.57%	2011	2016	900,000	640,000	-
General Obligation Public Improvement Bond	2.10%	2013	2033	10,000,000	3,720,000	6,280,000
					15,016,426	32,364,574

Other Obligations Payable:

Capital lease	3.10%	2011	2016	\$ 109,073	-	67,430
Total long-term debt					<u>\$ 15,016,426</u>	<u>\$ 32,432,004</u>

Prior Year Defeasance of Debt

In September 2010, the Town 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, 2013

Note 7. Long-Term Liabilities (Continued)

Line of Credit

During 2013, the Town obtained a \$5,000,000 line of credit for the purpose of funding construction costs related to the Inner Loop project while awaiting reimbursement from VDOT. The line bears interest at 1-month LIBOR plus 1.05%. At June 30, 2013, no amounts were outstanding on this line of credit. The line matures on August 1, 2014 at which time all outstanding amounts are due and payable.

Industrial Development Authority

During 2013, the IDA issued debt to assist the Salem Volunteer Fire Department in obtaining financing through Rural Development to pay off a bank loan in which they were in default. The IDA obtained title to the property and then subsequently leased back the property to the Fire Department through a financing lease as discussed in Note 3. The County of Culpeper has provided a moral obligation to pay any amounts due the IDA should the Fire Department be unable to meet their obligations.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Rural Development Loan	\$ -	\$ 1,037,000	\$ -	\$ 1,037,000	\$ 12,631

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

<u>Year Ended June 30</u>	<u>Rural Development Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 12,631	\$ 34,999
2015	13,057	34,572
2016	13,498	34,132
2017	13,954	33,676
2018	14,425	33,205
2019-2023	79,763	158,387
2024-2028	94,163	143,987
2029-2033	111,163	126,987
2034-2038	131,231	87,306
2039-2043	154,922	83,228
2044-2048	182,891	55,259
2049-2053	215,302	22,242
	<u>\$ 1,037,000</u>	<u>\$ 847,980</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>
Rural Development Loan	3.36%	2013	2053	\$ 1,037,000	\$ 1,037,000

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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	\$ 146,178	\$ -
Cemetery perpetual care	-	638,704
Total nonspendable	146,178	638,704
Restricted for:		
Community development – unused grant proceeds	264,041	-
Community development – proffers	393,530	
Asset seizure funds	7,323	
Total restricted	664,894	-
Committed to:		
Community development – historic streetscape projects	1,507,823	-
Other capital projects – roadway projects	6,564,453	-
Total committed	8,072,276	
Assigned to:		
General government administration – unused capital project funds allocated to FY14.	142,683	-
Public works – Unused capital project funds allocated to FY14	140,195	-
Community development – unused capital project funds allocated to FY14.	210,937	-
Other capital projects – unused capital projects funds Allocated to FY14.	859,506	-
Total assigned	1,353,321	-
Unassigned	823,784	-
Total fund balance	\$ 11,060,453	\$ 638,704

Note 9. Defined Benefit Pension Plan

Plan Description

The Virginia Retirement System (VRS), is an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent (professional) employees 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five 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. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or 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% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. 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 2013 was 12.78% of annual covered payroll.

Annual Pension Cost

For 2013, the Town's annual pension cost of \$907,873 was equal to the 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, 2013	\$ 907,873	100%	\$ -
June 30, 2012	\$ 725,975	100%	\$ -
June 30, 2011	\$ 712,470	100%	\$ -

The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) 7.00% 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) a cost-of-living adjustment of 2.50% per year for Plan 1 members and 2.25% per year for Plan2 members. 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 unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years and will decrease by one each year in subsequent valuations until reaching 20 years (open amortization, computed as level percent of payroll).

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 69.51% funded. The actuarial accrued liability for benefits was \$32,486,722 and the actuarial value of assets was \$22,581,241, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,905,481. The covered payroll (annual payroll of active employees covered by the plan) was \$7,094,761, and the ratio of the UAAL to the covered payroll was 139.62%.

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 member of the Virginia Municipal Electric Association (VMEA) which is a nonprofit organization created to purchase electricity from Dominion Virginia Power for resale to its members. A new contract was entered into in 2011, which extends VMEA's purchase agreement with Dominion to 2030. Purchases of electricity through VMEA totaled \$7,234,932 for the year ended June 30, 2013. Of these purchases, \$761,713 is included in accounts payable as of June 30, 2013. The Town's new contract provides for periodic true-ups based on actual costs incurred by Dominion Virginia Power. Such true-ups could result in an increase or reduction of expenses previously recognized. The Town's policy is to recognize the true-up when known due to a lack of information to estimate such an amount. The true-up calculation generally is proposed approximately six months after the calendar year end. There were no such true-ups outstanding as of June 30, 2013.

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 2012 taxes due January 31, 2013 was \$.13 per \$100 of assessed value. Residents who live in the Southridge, Lafayette Ridge, and Willow Shade districts pay an additional special assessment of \$.15, \$.10, and \$.06 per \$100 of assessed value, respectively. The personal property and business equipment tax rate was \$1.00 per \$100 of assessed value. The machinery and tools tax rate was \$.80 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 2013 were approximately \$118,000.

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 \$77 million. The Town maintains an additional \$10,000,000 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 2013 were approximately \$201,000.

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 and potential claims are pending against the Town. In the opinion of the Town's management, after consulting with counsel, the potential loss, if any, given insurance coverage, will not materially affect the Town's financial position. Subsequent to year end a large potential lawsuit related to a negligent police shooting was settled within insurance coverage limits.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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, 2013 was as follows:

Retirees currently receiving benefits	10
Active employees	165
	<hr/>
Total	175
	<hr/> <hr/>

Funding Policy

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

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

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

Annual required contribution	\$ 70,900
Interest on net OPEB obligation	5,011
Adjustment to annual required contribution	(5,294)
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Annual OPEB cost	70,617
Contributions made	(37,600)
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Increase in net OPEB obligation	33,017
Net OPEB obligation – beginning of year	143,170
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Net OPEB obligation – end of year	\$ 176,187
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TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 14. Other Post-Employment Benefits (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 70,617	53.24%	\$ 176,187
June 30, 2012	\$ 77,870	40.32%	\$ 143,170
June 30, 2011	\$ 73,800	33.60%	\$ 96,700

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2013 was as follows:

Actuarial Accrued Liability (AAL)	\$ 750,200
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 750,200
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 7,950,900
UAAL as a Percentage of Covered Payroll	9.44 %

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, 2013 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 3.50% rate of return and an initial annual healthcare cost trend of 7.00% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.80%. The unfunded accrued liability is being amortized over 30 years as a level percent of payroll method on an open basis. Payroll and inflation is assumed to increase 3.00% per annum. The remaining amortization period at June 30, 2013 is 30 years.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 15. Voluntary Settlement of Annexation and Utility Issues

A voluntary settlement of annexation and utility issues agreement between the Town and the County of Culpeper went into effect July 1, 2012. 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. A special item of \$680,433 has been recorded on the Statement of Activities due to the town's annexation of streets from VDOT after the boundary line adjustment occurred. The Town has agreed to reduce BPOL taxes for at least one year by 20% in all categories and areas.

Note 16. Subsequent Events

In August 2013, the Town closed on a \$4,796,000 General Obligation Bond, Series 2013A, which will be used to finance transportation projects including the construction of the "Inner Loop", land acquisitions, capital improvements to the water and wastewater system including without limitation future water supply sources, the creation of a water system high pressure zone, and the Eastern View force main, and various other capital projects. The Bond will bear interest at 2.33% per year, subject to certain resets, and matures on February 1, 2028.

In January 2014, the Town awarded General Excavation, Inc. the construction contract related to the Colonel Jameson Boulevard project in the amount of \$5,074,563. A portion of the bond proceeds noted previously will go towards this project.

In November 2013, the Town became aware of errors related to employee deductions for both health insurance and VRS. In most cases, these errors resulted in the Town paying more on behalf of employees than what was deducted from their paychecks. As a result of these errors, employees will be required to reimburse the Town, over a period of time, the amounts that were overpaid by the Town on their behalf. At the time the report was issued, management was still in the process of determining the full impact of the deduction errors.

Note 17. New Accounting Standards

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The Statement will be effective for the year ending June 30, 2014.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 17. New Accounting Standards (Continued)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of GASB Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015. The Town early implemented **GASB Statement No. 69** in the current year, see Note 6.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 17. New Accounting Standards (Continued)

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

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

**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2013**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 3,250,484	\$ 3,250,484	\$ 2,872,543	\$ (377,941)
Local sales and use taxes	1,100,000	1,100,000	1,298,108	198,108
Business license tax	1,146,000	1,146,000	1,092,986	(53,014)
Franchise license tax	132,120	132,120	126,439	(5,681)
Bank stock tax	292,000	292,000	287,309	(4,691)
Cigarette tax	125,000	125,000	183,297	58,297
Hotel and motel room tax	280,000	280,000	249,896	(30,104)
Food and beverage tax	2,275,000	2,275,000	2,622,243	347,243
Local consumption tax	57,000	57,000	61,845	4,845
Permits, privilege fees, and regulatory license	238,300	238,300	255,905	17,605
Fines and forfeitures	151,000	151,000	129,654	(21,346)
Revenues from use of money and property	206,700	206,700	209,604	2,904
Charges for services	217,277	217,277	217,060	(217)
Other	86,000	86,525	288,051	201,526
Recovered costs	1,820,883	1,820,883	1,817,446	(3,437)
Intergovernmental	2,015,571	2,036,590	3,279,435	1,242,845
Total revenues	13,393,335	13,414,879	14,991,821	1,576,942
EXPENDITURES				
Current:				
General government administration				
Town council	166,446	166,446	161,662	4,784
Town manager	224,252	224,252	212,211	12,041
Town clerk	245,439	235,439	221,327	14,112
Human resources	299,870	304,870	294,500	10,370
Legal services	126,230	171,230	160,800	10,430
Independent auditor	34,600	64,004	61,504	2,500
Treasurer	777,458	853,213	901,427	(48,214)
Disaster-emergency	-	4,000	3,630	370
Risk management	112,282	111,182	111,181	1
Information technology	829,495	831,826	800,181	31,645
Motor pool	223,350	223,350	217,954	5,396
Total general government administration	3,039,422	3,189,812	3,146,377	43,435
Public safety				
Police department	4,192,471	4,141,716	4,018,716	123,000
Total public safety	4,192,471	4,141,716	4,018,716	123,000

(Continued)

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public works				
Public works administration	\$ 108,635	\$ 109,304	\$ 98,573	\$ 10,731
Streets	2,089,892	2,082,430	2,023,896	58,534
Refuse collection	360,961	386,866	380,350	6,516
General properties	577,338	650,663	607,628	43,035
Total public works	<u>3,136,826</u>	<u>3,229,263</u>	<u>3,110,447</u>	<u>118,816</u>
Parks, recreation, and cultural				
Parks and recreation	718,988	736,554	706,481	30,073
Cemetery	239,793	239,793	200,231	39,562
Total parks, recreation, and cultural	<u>958,781</u>	<u>976,347</u>	<u>906,712</u>	<u>69,635</u>
Community development				
Planning and zoning	558,280	527,908	535,063	(7,155)
Visitors center	85,821	85,821	81,528	4,293
Tourism	280,726	277,896	255,148	22,748
Economic development	106,250	136,250	136,250	-
Contributions	259,829	329,943	278,962	50,981
Total community development	<u>1,290,906</u>	<u>1,357,818</u>	<u>1,286,951</u>	<u>70,867</u>
Capital projects				
Capital projects	<u>10,387,901</u>	<u>18,733,665</u>	<u>3,918,542</u>	<u>14,815,123</u>
Debt service:				
Principal retirement	779,492	779,492	784,741	(5,249)
Interest and fiscal charges	409,276	447,860	442,610	5,250
Bond issuance costs	-	-	56,846	(56,846)
Total debt service	<u>1,188,768</u>	<u>1,227,352</u>	<u>1,284,197</u>	<u>(56,845)</u>
Total expenditures	<u>24,195,075</u>	<u>32,855,973</u>	<u>17,671,942</u>	<u>15,184,031</u>
Excess of expenditures over revenues	<u>(10,801,740)</u>	<u>(19,441,094)</u>	<u>(2,680,121)</u>	<u>16,760,973</u>
OTHER FINANCING SOURCES				
Issuance of general obligation bonds	9,451,060	9,451,060	3,720,000	(5,731,060)
Transfers in	573,758	573,758	573,758	-
Total other financing sources	<u>10,024,818</u>	<u>10,024,818</u>	<u>4,293,758</u>	<u>(5,731,060)</u>
Net change in fund balances	<u>\$ (776,922)</u>	<u>\$ (9,416,276)</u>	<u>\$ 1,613,637</u>	<u>\$ 11,029,913</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, 2013

	(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, 2012	\$ 22,581,241	\$ 32,486,722	\$ 9,905,481	69.51%	\$ 7,094,761	139.62%
June 30, 2011	\$ 22,963,880	\$ 31,581,077	\$ 8,617,197	72.71%	\$ 7,073,996	121.82%
June 30, 2010	\$ 22,231,761	\$ 30,334,011	\$ 8,102,250	73.29%	\$ 7,275,824	111.36%
OTHER POST-EMPLOYMENT BENEFITS						
June 30, 2013	\$ -	\$ 750,200	\$ 750,200	0.00%	\$ 7,950,900	9.44%
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, 2013**

	Industrial Development Authority	Parking Authority	Total
ASSETS			
Cash and cash equivalents	\$ 79,927	\$ 8,624	\$ 88,551
Cash and cash equivalents, restricted	50,589	-	50,589
Receivables, net	-	2,111	2,111
Total assets	<u>\$ 130,516</u>	<u>\$ 10,735</u>	<u>\$ 141,251</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Debt payments received in advance	\$ 50,589	\$ -	\$ 50,589
Due to primary government	-	39,736	39,736
Total liabilities	<u>50,589</u>	<u>39,736</u>	<u>90,325</u>
Fund balances:			
Assigned	79,927	-	79,927
Unassigned	-	(29,001)	(29,001)
Total fund balances	<u>79,927</u>	<u>(29,001)</u>	<u>50,926</u>
Total liabilities and fund balances	<u>\$ 130,516</u>	<u>\$ 10,735</u>	<u>\$ 141,251</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:			
Total fund balance	\$ 79,927	\$ (29,001)	\$ 50,926
Long-term assets, including notes receivable, are not due and receivable in the current period and therefore are not reported in the funds.	1,024,369	-	1,024,369
Debt payments received in advance create a deferral at the fund level for the entire amount; however, offset the note receivable and any interest earned to date on the Statement of Net Position.	39,230	-	39,230
Long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,063,599)	-	(1,063,599)
Net position of governmental activities	<u>\$ 79,927</u>	<u>\$ (29,001)</u>	<u>\$ 50,926</u>

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2013**

	Industrial Development Authority	Parking Authority	Total
REVENUES			
Charges for services	\$ -	\$ 47,277	\$ 47,277
Intergovernmental grants	106,682	-	106,682
Total revenues	106,682	-	106,682
EXPENDITURES			
Public works	-	39,564	39,564
Community development	106,632	-	106,632
Total expenditures	106,632	39,564	146,196
Excess of revenue over expenditures	50	7,713	7,763
Net change in fund balances	50	7,713	7,763
FUND BALANCES AT JULY 1	79,877	(36,714)	43,163
FUND BALANCES AT JUNE 30	\$ 79,927	\$ (29,001)	\$ 50,926
Amounts reported for governmental activities in the Statement of Activities are different because:			
Net change in fund balance	\$ 50	\$ 7,713	\$ 7,763
Interest earned related to long-term notes receivable does not represent current financial resources and therefore are not reported as revenue in the funds.	26,599	-	26,599
Accrued interest reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(26,599)	-	(26,599)
Change in net position of governmental activities	\$ 50	\$ 7,713	\$ 7,763

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 POSITION BY COMPONENT

Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year								
	2013	2012	2011	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Governmental Activities									
Net investment in capital assets	\$ 25,529,232	\$ 17,766,505	\$ 19,571,754	\$ 21,719,577	\$ 23,576,860	\$ 21,499,768	\$ 19,617,242	\$ 26,197,634	\$ 6,674,715
Restricted	1,303,598	598,758	542,416	592,481	-	1,415,016	2,709,578	-	-
Unrestricted	2,015,193	9,013,312	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 position	<u>\$ 28,848,023</u>	<u>\$ 27,378,575</u>	<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									
Net investment in capital assets	\$ 25,590,844	\$ 29,971,833	\$ 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	25,738,585	21,724,844	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 position	<u>\$ 51,329,429</u>	<u>\$ 51,696,677</u>	<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									
Net investment in capital assets	\$ 51,120,076	\$ 47,738,338	\$ 47,071,732	\$ 49,843,601	\$ 45,828,574	\$ 35,610,771	\$ 41,215,192	\$ 45,455,788	\$ 23,547,448
Restricted	1,303,598	598,758	542,416	592,481	2,470,415	20,634,121	2,709,578	-	-
Unrestricted	27,753,778	30,738,156	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 position	<u>\$ 80,177,452</u>	<u>\$ 79,075,252</u>	<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 POSITION BY COMPONENT

Last Nine Fiscal Years

(accrual basis of accounting)

	Fiscal Year								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses									
Governmental Activities:									
General government	\$ 1,820,939	\$ 2,014,118	\$ 1,337,825	\$ 1,257,522	\$ 1,620,482	\$ 1,179,182	\$ 1,923,079	\$ 2,052,211	\$ 2,263,864
Public safety	4,355,486	3,982,363	4,014,472	3,962,281	4,082,574	3,953,400	3,729,120	3,265,458	2,861,082
Public works	3,927,287	3,609,893	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	952,084	759,713	581,190	541,764	555,241	629,683	624,332	472,106	448,082
Community development	1,448,109	1,374,210	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	529,532	430,650	338,982	509,832	295,133	276,215	157,203	145,391	156,384
Total governmental activities	13,033,437	12,170,947	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	3,173,641	3,080,472	2,989,018	2,836,510	3,044,418	3,164,725	2,623,445	2,414,757	2,208,579
Wastewater	5,438,022	5,322,081	5,480,065	3,745,960	4,778,920	4,316,981	3,507,532	3,116,891	2,935,237
Electric	10,592,276	11,195,220	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	19,203,939	19,597,773	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	32,237,376	31,768,720	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:									
General government	189,022	-	-	-	-	-	-	-	-
Public safety	185,890	244,823	188,207	217,637	158,783	157,226	151,259	175,421	128,426
Public works	224,756	216,426	134,538	149,335	75,307	110,628	155,174	717,210	408,363
Parks, recreation, and cultural	408,606	401,784	477,141	358,254	387,853	370,169	342,453	298,384	292,739
Community development	31,878	19,357	8,461	9,678	-	-	-	-	8,090
Operating grants and contributions	2,088,055	1,892,927	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	959,384	-	-	-	-	4,479	49,458	-	85,000
Total governmental activities program revenues	4,087,591	2,775,317	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	3,711,935	3,177,413	2,893,750	3,022,229	2,977,336	4,706,386	4,697,202	5,630,443	4,844,933
Wastewater	4,441,288	3,436,827	3,204,475	3,383,665	3,243,368	5,762,559	5,671,837	6,688,333	5,464,684
Electric	11,188,316	10,855,157	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	22,000	2,083	11,806	2,823,708	817,398	2,234,966	-	-	-
Total business-type activities program revenues	19,363,539	17,471,480	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	23,451,130	20,246,797	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	(8,945,846)	(9,395,630)	(8,021,196)	(8,581,351)	(9,510,922)	(8,380,256)	(8,682,166)	(7,675,053)	(6,858,498)
Business-type activities	159,600	(2,126,293)	(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	(8,786,246)	(11,521,923)	(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 POSITION BY COMPONENT

Last Nine Fiscal Years
(accrual basis of accounting) (continued)

	Fiscal Year								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes in Net Position									
Governmental Activities:									
Taxes									
Property taxes	\$ 2,905,805	\$ 2,764,759	\$ 2,757,576	\$ 3,159,991	\$ 2,568,973	\$ 2,379,368	\$ 1,814,074	\$ 1,657,129	\$ 1,401,475
Sales taxes	1,299,219	1,257,483	986,332	1,069,068	937,575	934,160	930,601	1,021,269	872,257
Business license tax	1,092,986	1,060,265	1,010,056	1,103,611	1,064,862	1,231,754	1,270,923	1,278,563	1,118,169
Franchise license tax	126,439	137,179	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	287,309	273,240	329,972	271,467	235,807	209,900	259,624	270,124	218,450
Cigarette tax	183,297	126,516	144,010	148,459	177,417	183,449	193,272	196,449	203,219
Hotel and motel room tax	249,896	299,089	256,929	256,849	225,343	224,213	231,472	222,157	207,628
Food and beverage tax	2,622,243	1,846,124	1,790,476	1,748,975	1,762,648	1,907,318	1,940,164	1,948,458	1,536,313
Local consumption tax	61,845	59,249	53,883	54,759	62,491	62,565	61,972	61,773	50,321
Other local taxes	971	2,195	4,074	4,245	-	-	-	-	-
Intergovernmental revenue	231,473	443,255	285,193	230,617	230,058	257,038	240,733	235,199	262,882
Investment earnings	25,279	13,663	22,309	25,398	135,773	265,207	210,197	95,590	37,356
Other	74,341	54,908	163,583	453,053	508,078	294,056	249,801	246,002	568,976
Special Item: Annexation of State Roads	680,433	-	-	-	-	-	-	-	-
Transfers	573,758	300,000	300,000	302,145	-	-	-	-	-
Total governmental activities	10,415,294	8,637,925	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	46,910	216,685	252,103	329,668	738,832	1,362,743	1,145,169	762,413	299,664
Other	-	1,433,610	1,252,125	573,216	-	-	-	-	-
Transfers	(573,758)	(300,000)	(300,000)	(302,145)	-	-	-	-	-
Total business-type activities	(526,848)	1,350,295	1,204,228	600,739	738,832	1,362,743	1,145,169	762,413	299,664
Total primary government	9,888,446	9,988,220	9,449,541	9,555,030	8,789,122	9,474,325	8,945,719	8,376,385	7,117,998
Changes in Net Position									
Governmental activities	1,469,448	(757,705)	224,117	372,940	(1,460,632)	(268,674)	(881,616)	(61,081)	(40,164)
Business-type activities	(367,248)	(775,998)	(633,322)	4,098,624	182,136	5,922,177	4,919,872	6,728,142	5,174,534
Total primary government	\$ 1,102,200	\$ (1,533,703)	\$ (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 Nine 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>
	2013	2012	2011			
Post-GASB54:						
General Fund						
Nonspendable	\$ 146,178	\$ 80,810	\$ 58,070			
Restricted	664,894	470,772	265,133			
Committed	8,072,276	7,931,602	83,125			
Assigned	1,353,321	648,657	4,557,951			
Uassigned	823,784	314,975	4,000,756			
Total general fund	<u>\$ 11,060,453</u>	<u>\$ 9,446,816</u>	<u>\$ 8,965,035</u>			
All Other Governmental Funds						
Nonspendable	\$ 638,704	\$ 598,758	\$ 542,416			
Total all other governmental funds	<u>\$ 638,704</u>	<u>\$ 598,758</u>	<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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
Taxes	\$ 8,794,666	\$ 7,834,966	\$ 7,432,462	\$ 7,738,427	\$ 7,145,133	\$ 7,276,554	\$ 7,126,549	\$ 7,017,270	\$ 5,961,179	\$ 5,304,918
Permits, privilege fees, and licenses	255,905	294,185	278,571	256,426	178,108	201,372	231,778	757,956	375,778	312,347
Fines and forfeitures	129,654	129,778	123,623	166,292	158,783	157,226	151,259	175,421	128,426	186,078
Investment earnings	210,859	191,908	232,691	249,704	356,434	493,722	418,812	303,218	237,078	280,759
Charges for services	255,751	284,563	200,374	92,425	62,041	62,613	57,188	50,010	133,693	157,829
Other	288,051	46,727	122,168	401,587	510,323	297,707	249,847	246,002	564,368	601,359
Recovered costs	1,817,446	2,009,672	2,052,104	1,630,016	1,544,137	1,461,127	1,168,821	758,563	703,636	622,077
Grant proceeds	-	-	-	-	25,090	87,655	-	-	-	-
Intergovernmental	3,279,435	2,342,176	2,975,718	2,562,603	1,949,588	2,338,101	1,869,723	1,630,967	1,724,112	1,793,912
Total revenues	15,031,767	13,133,975	13,417,711	13,097,480	11,929,637	12,376,077	11,273,977	10,939,407	9,828,270	9,259,279
Expenditures										
General government	3,146,377	2,703,451	2,491,505	2,146,254	2,583,546	2,203,714	2,188,450	1,966,866	1,790,504	1,620,458
Public safety	4,018,716	3,902,392	3,920,633	3,866,967	4,006,766	3,972,387	3,762,629	3,209,213	2,931,775	2,518,589
Public works	3,110,447	3,045,848	2,820,311	2,678,356	3,287,064	2,413,634	2,637,275	2,385,637	2,297,221	2,197,942
Parks, recreation, and cultural	906,712	715,352	654,533	489,512	512,386	582,890	516,086	452,943	432,798	361,605
Health and welfare	-	-	-	-	11,378	5,129	6,907	7,370	7,703	7,393
Community development	1,286,951	1,335,520	1,140,210	1,233,053	1,115,101	1,069,575	1,052,548	1,189,295	1,234,575	769,056
Capital projects	3,918,542	841,828	1,628,829	2,174,668	3,408,564	2,557,650	1,263,391	1,836,753	637,097	4,232,816
Debt service:										
Principal	784,741	716,123	573,103	498,974	835,589	406,721	399,388	388,500	376,465	263,790
Interest	442,610	419,506	412,271	393,527	299,844	273,288	168,525	148,077	159,260	127,178
Bond issuance costs	56,846	115,832	150,834	27,991	-	-	-	-	-	-
Total expenditures	17,671,942	13,795,852	13,792,229	13,509,302	16,060,238	13,484,988	11,995,199	11,584,654	9,867,398	12,098,827
Excess of revenues over (under) expenditures	(2,640,175)	(661,877)	(374,518)	(411,822)	(4,130,601)	(1,108,911)	(721,222)	(645,247)	(39,128)	(2,839,548)
Other Financing Sources (Uses)										
Proceeds from borrowing	3,720,000	900,000	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
Transfers in	573,758	300,000	300,000	302,145	-	-	-	-	-	-
Total other financing sources (uses)	4,293,758	1,200,000	450,834	5,931,145	540,124	1,607,021	3,750,000	-	4,607	2,814,706
Net change in fund balances	\$ 1,653,583	\$ 538,123	\$ 76,316	\$ 5,519,323	\$ (3,590,477)	\$ 498,110	\$ 3,028,778	\$ (645,247)	\$ (34,521)	\$ (24,842)
Debt service as a percentage of noncapital expenditures	8.98%	8.59%	7.91%	7.87%	9.86%	6.64%	5.59%	5.83%	6.16%	5.23%

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		
2013	\$ 1,430,145,200	\$ 134,140,673	\$ 16,413,572	\$ 39,446,496	\$ 357,302	\$ 1,620,503,243	0.17
2012	1,155,780,300	126,677,786	16,266,484	40,816,355	79,380	1,339,620,305	0.20
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

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
2013	0.13	1.00	0.80	0.11	1.00	0.83	3.50
2012	0.13	1.00	0.80	0.11	1.00	0.74	3.50
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

TABLE 7

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

June 30, 2013

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Culpeper Memorial Hospital, Inc	Medical	\$ 24,863,400	1.74%
Society for Worldwide Interbank Transfers	Banking operations	18,117,100	1.27%
Dominion Square-Culpeper LLC	Shopping center	12,354,800	0.86%
Wal-Mart Real Estate Business Properties	Retail/grocery	10,905,600	0.76%
Culpeper Marketplace Associates	Shopping center	9,548,000	0.67%
Target Corporation	Retail/grocery	7,195,400	0.50%
Lowe's Home Centers Inc.	Retail	6,921,100	0.48%
Masco Builder Cabinet Group	Manufacturing	6,541,200	0.46%
Culpeper Shopping Center	Shopping center	6,400,100	0.45%
Southridge/Culpeper LP	Shopping center	6,584,100	0.46%

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	Collected within the Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2013	\$ 2,822,635	\$ 2,718,709	96.32%	\$ -	2,718,709	96.32%
2012	2,723,711	2,648,044	97.22%	152,686	2,800,730	102.83%
2011	2,869,395	2,834,635	98.79%	34,760	2,869,395	100.00%
2010	2,823,203	2,534,180	89.76%	213,169	2,747,349	97.31%
2009	2,392,938	2,282,979	95.40%	32,542	2,315,521	96.76%
2008	1,807,196	1,781,320	98.57%	32,932	1,814,252	100.39%
2007	1,624,710	1,567,012	96.45%	23,148	1,590,160	97.87%
2006	1,585,440	1,562,953	98.58%	48,412	1,611,365	101.64%
2005	1,533,742	1,490,096	97.15%	27,609	1,517,705	98.95%
2004	1,619,076	1,545,834	95.48%	59,057	1,604,891	99.12%
2003	1,610,210	1,561,918	97.00%	50,848	1,612,766	100.16%

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			Capital Leases			
	Obligation Bonds	Water Bonds	Wastewater Bonds	Electric Bonds				
2013	\$ 15,016,426	\$ 6,745,754	\$ 19,634,087	\$ 5,984,733	\$ 67,430	47,448,430	6.33%	2,808
2012	12,081,167	3,017,270	20,389,892	4,107,671	109,073	39,705,073	5.30%	2,343
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

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	Per Capita
	General Obligation Bonds	Value of Property	
2013	\$ 47,381,000	2.92%	2,804
2012	39,596,000	2.96%	2,337
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

TABLE 11

TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Debt limit	\$ 146,959,170	\$ 119,659,666	\$ 133,558,800	\$ 182,634,959	\$ 178,578,550	\$ 156,358,620	\$96,376,990	\$81,768,970	\$69,311,320	\$63,620,240
Total net debt applicable to limit	15,016,426	12,081,167	11,960,756	13,097,918	7,967,892	8,242,832	7,065,072	3,714,465	4,102,966	4,479,431
Legal debt margin	<u>\$ 131,942,744</u>	<u>\$ 107,578,499</u>	<u>\$ 121,598,044</u>	<u>\$ 169,537,041</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>
Total net debt applicable to the limit as a percentage of debt limit	<u>10.22%</u>	<u>10.10%</u>	<u>8.96%</u>	<u>7.17%</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>

Legal Debt Margin Calculation for Fiscal Year 2013

Assessed value	<u>\$1,469,591,696</u>
Debt limit (10% of assessed value)	\$ 146,959,170
Less debt applicable to limit:	
General obligation bonds	<u>(15,016,426)</u>
Legal debt margin	<u>\$ 131,942,744</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	
2013	\$17,874,539	\$15,233,615	\$ 2,640,924	\$ 1,430,259	\$ 1,113,035	1.04
2012	17,469,397	15,532,231	1,937,166	1,372,877	1,281,466	0.73
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

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
2013	16,899	N/A	\$ 57,873	34	5,777	6.10%
2012	16,945	N/A	\$ 61,434	32	5,700	6.50%
2011	16,379	N/A	71,230	32	3,247	7.30%
2010	14,028	749,221,044	63,250	32	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%

Source: Census Data and Town of Culpeper Planning Department.

N/A: Not available

TABLE 14

TOWN OF CULPEPER, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Eight Years Ago

June 30, 2013

Employer	Product/Service	Total Estimated Employees	Percent of Workforce
Culpeper County Schools	Public Agency	1200	7.1%
Culpeper Regional Hospital	Health Care	698	4.1%
Walmart	Commercial Retailer	506	3.0%
County of Culpeper	Public Agency	506	3.0%
VA Department of Transportation (VDOT)	Public Agency	441	2.6%
Masco Builder Cabinet Group	Factory	340	2.0%
Continental Automotive	Factory	236	1.4%
Cintas	Uniform Service	220	1.3%
Swift	Financial Institution	200	1.2%
Town of Culpeper Health & Rehab Center	Health Care	186	1.1%

June 30, 2005*

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

Source: Planning Department, Town of Culpeper, Virginia.

* Information has only been available since 2005, and only the top five was available at that time.

TABLE 15

TOWN OF CULPEPER, VIRGINIA

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

Function	2013	2012	2011	2010	2009	2008
General Government						
Management services (includes Council = 4.5)	5	6	7	7	7	8
Finance	9	10	10	10	9	10
Planning	5	5	4	3	4	4
Building	2	2	1	1	1	0
Other (including Clerk, Information Technology, Engineering, Tourism)	16	17	9	11	13	11
Public Safety						
Officers	42	39	41	41	40	46
Civilians	8	9	8	8	5	6
Public Works						
Refuse collection	4	5	5	5	5	5
Streets	15	10	13	13	13	14
Other	4	6	4	5	5	4
Parks and Recreation						
Parks	8	6	5	7	7	7
Other	3	1	3	3	3	3
Water and Wastewater Operations	32	36	31	23	31	30
Electric Operations	19	16	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 Six Fiscal Years

Function	2013	2012	2011	2010	2009	2008
Public Safety						
Traffic violations	2755	2,180	3,471	4,086	4,149	5,242
Parking violations	1876	1,439	1,643	2,530	3,265	3,391
Arrests	1389	1,386	1,320	499	-	-
Total crimes	1871	1,783	1,823	1,845	1,654	494
Public Works						
Street paving – crack sealant in pounds	4,740	20,442	30,000	30,000	30,000	-
Street paving – milling in sq. yds.	1,011	21,755	9,575	33,347	17,870	-
Street paving – bituminous concrete in tons	2,884	5,495	4,504	4,839	6,645	-
Recycling – cardboard in pounds	73,020	81,420	89,320	90,460	74,000	83,000
Recycling – newspaper in pounds	-	-	-	-	18,500	28,390
Water Operations						
Number of service connections	6,651	6,579	6,507	6,466	6,439	6,371
Average daily consumption in gallons	1,700,000	1,499,109	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	4,000,000	4,000,000
Wastewater Operations						
Number of service connections	6,382	6,315	6,238	6,190	6,184	6,069
Average daily consumption in gallons	3,700,000	1,371,855	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	6,000,000	6,000,000	4,000,000	4,000,000
Electric Operations						
Number of service connections	5,087	5,099	5,063	4,987	4,921	4,885
Average monthly consumption in kilowatt-hours	1,628	1,611	1,673	1,466	1,592	N/A
Highest system peak demand in megawatts	25.56	25.66	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 Six Fiscal Years

Function	2013	2012	2011	2010	2009	2008
Public Safety						
Stations	1	1	1	1	1	1
Number of patrol units	33	33	33	33	29	32
Public Works						
Streets (miles)	66	62	64	62	62	58
Street & yard lights	1109	1,116	1,133	1,133	1,175	1,175
Traffic signals	20	19	15	15	14	14
Water Operations						
Miles of water main	100	99	99	99	99	98
Number of fire hydrants	737	678	678	678	678	638
Wastewater Operations						
Miles of sanitary sewer	96	95	95	95	95	95
Miles of storm sewer	30	20	20	20	20	20
Number of treatment plants	1	1	1	1	1	1
Number of pumping stations	9	9	9	9	9	9
Electric Operations						
Miles of overhead lines (miles)	27.66	27.66	27.66	N/A	N/A	N/A
Miles of underground lines (miles)	42.87	41.78	41.78	N/A	N/A	N/A
Number of sub-stations (115 kV)	1	1	1	1	1	1
Number of delivery points (34.5 kV)	0	0	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.

COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town basic financial statements, and have issued our report thereon dated January 28, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town's internal control. Accordingly, we do not express an opinion on the effectiveness of Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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 in internal control as described in the accompanying schedule of findings and questioned costs as items 10-1 and 10-2 that we consider 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is further described in the accompanying schedule of findings and questioned costs as Item 13-1.**

Town of Culpeper's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
January 28, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Culpeper, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures did not disclose instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
January 28, 2014

TOWN OF CULPEPER, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2013

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, 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, 2013

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Two deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These 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 **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as a major program is:

Community Facilities Loans and Grants	10.766
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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, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management concurs with this recommendation.

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.
- Inadequate controls over recordkeeping of capital assets.
- Inadequate access controls over information technology systems.
- Inadequate controls over the payroll module causing errors in employee deductions and W-2 reporting.

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:

Management concurs with this recommendation.

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

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

None

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

13-1: Budget Overages

Condition:

It was noted that the Town exceeded its final budget in the Treasurer, Planning and Zoning and Debt Service categories. It is a violation of Virginia State Code to spend amounts in excess of appropriations.

Recommendation:

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

Management's Response:

Management concurs with this recommendation.

SCHEDULE 1

TOWN OF CULPEPER, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>DEPARTMENT OF AGRICULTURE</u>		
Community Facilities Loans and Grants	10.766	\$ 1,037,000
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
<u>Virginia Department of Housing and Urban Development</u>		
Neighborhood Stabilization Grant	14.228	151,620
<u>DEPARTMENT OF JUSTICE</u>		
<u>Virginia Department of Criminal Justice Services</u>		
Crime Victim Assistance	16.575	51,416
Violence Against Women Formula Grant	16.588	27,832
Justice Assistance Act Grant	16.738	28,174
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Virginia Department of Motor Vehicles</u>		
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	<u>9,873</u>
Total Expenditures of Federal Awards		<u>\$ 1,305,915</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Significant Accounting Policy

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

Note 2. Loan Program

Included in the Schedule of Expenditures of Federal Awards are loan proceeds obtained by Discretely Presented Component Unit, Industrial Development Authority in the total amount of \$1,037,000. The loan is through the Department of Agriculture, CFDA number 10.766.