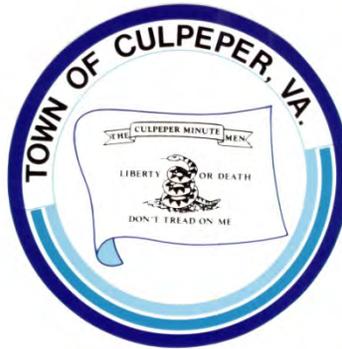


# **TOWN OF CULPEPER, VIRGINIA**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2012**

**TREASURER'S OFFICE**

**TOWN OF CULPEPER, VIRGINIA**  
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# INTRODUCTORY SECTION

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# TOWN OF CULPEPER

## TREASURERS OFFICE

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

November 20, 2012

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, 2012. This report was audited by the independent certified public accounting firm of Brown Edward & Company, and the responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner that presents fairly the financial position and results of operations of the Town's various funds, and component units. All necessary disclosures have been included to enable the reader to gain an understanding of the financial activities of the Town.

### **THE REPORTING ENTITY AND SERVICES PROVIDED**

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

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

### **ECONOMIC CONDITION AND OUTLOOK**

Population growth has been a continued theme during the last several years for the Town, but population grew at a considerably slower rate during FY09 to FY12. Certificates of Occupancy (COs) are the Town's most definitive measure of current population growth and for each fiscal year FY03 through FY12, COs totaled 146, 302, 607, 469, 223, 130, 45, 16, 46 and 77 respectively. The peak occurred in FY05 (607), with a corresponding single-year population increase of 12% or 1,500 persons.<sup>1</sup> Although the FY09 thru FY12 period showed a marked reduction from prior years and a significant drop-off in FY10 with only 16 issued, FY12 has shown an increase in CO's over FY11 (46 vs. 77) and perhaps reflects some improvements in the local economy.

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<sup>1</sup> Each average household = 2.48 persons

Zoning and building permits are excellent indicators of growth in the near future (12- to 24-months out). Similar to the CO trend, zoning and building permits in Town peaked in FY04 with a combined total of 1,016 permits issued, steadied in FY05 with a combined total of 997, and slowed to 332, 196, 321 and 254 in FY08, FY09, FY10 and FY11 respectively. The number of zoning permits issued for FY12 totaled 350 and building permits totaled 850 for a combined total of 1,200, again reflecting an improvement in the local economy.

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

Due to this growth and the generally positive conditions that accompany it, the outlook for the Town remains, overall, upbeat. The Town remains a primary commercial and service area of Culpeper County and its neighboring counties. The Town is fortunate to be able to rely on such elastic revenue sources as sales tax and meals and lodging taxes as income for assistance with balancing the governmental fund budget.

The Town faces many challenges in the coming years to address the demands on capital facilities and operations of a growing population. The Town and County have worked diligently over the past few years in their ongoing discussion of water and sewer services outside Town boundaries. During FY11, the Town and County came to agreement on a boundary line adjustment and held public hearings that resulted in passage of the agreement. The agreement was reviewed by the Commission on Local Government in September 2011, including a local public hearing held by that body. The Commission approved the agreement and a three-judge panel signed the agreement order in the winter of 2012. On July 1, 2012, the order took effect and approximately .48 square miles of property was taken into the Town.

### **MAJOR INITIATIVES IN FY12**

FY12 brought a continued focus on improvement of Town operations and planning for a growing community. The following major projects were begun or continued during the fiscal year:

- Water Supply - The Town continues work to identify additional and supplemental sources of water and is working with a company to identify well sites within the County. This project will continue into FY13.
- Streetscapes and Entryways - The town has budgeted and continues to make efforts to improve the downtown parking facilities, sidewalks, trails, bikeways and parks. This includes the three-phase Streetscapes and Entryways Project that will be funded 80% by VDOT Enhancement Grant money. The Town will begin work on portions of this project in FY13.
- Automated Meter Reading - This project is funded by the Water Fund, WasteWater Fund, and the Light & Power Fund. We are collecting \$1.00 for each water & sewer meter and \$1.50 for each electric meter as a special assessment for the AMR project. By implementing AMR, it will provide more accurate and timely meter readings, help reduce the frequency of estimated readings, allow customers to view their energy and water usage on a daily basis, and eliminate the need to hire additional meter reading personnel and equipment to meet the demands of the growing customer base. Contract award was made in FY11 and work began on project implementation during FY11 and FY12. A large portion of residential meter installations were completed in FY12 along with a smaller portion of commercial customers. Project completion is anticipated in late fall to early winter of FY13.

- Computer System Upgrade – In FY08, work began implementing the new Microsoft Dynamics Great Plains/Cogsdale Corporation software. Payroll and Accounts Payable went online in FY08 and the Utility Billing and Customer Service Management modules were brought online in February 2010. The Town implemented online payment for taxes and utility billing and added payment-by-phone in FY11 with minor enhancements during FY12. Budget billing for utilities was implemented in FY12. Additional enhancements to online payments and customer account review and management are planned in FY13.
- Long-term Financial Planning - The Town began work in FY10 with its financial advisors, Davenport and Company, for the development of a Financial Master Plan for the Town. Similar to a Comprehensive Plan used by Planning & Zoning, the Financial Master Plan looks at near-term, intermediate-term and long-term funding and financing issues facing the Town, both for the General Fund and the Enterprise Fund departments. This process is ongoing with annual Town Council and staff review, updates and enhancements based on local, regional and national economic conditions. FY12 represented the first full year of actual work within the plan and the Town held a bond sale in July 2011 that was used to fund capital projects including transportation, administrative facilities, computer upgrades and vehicle and equipment replacement. A second bond sale is planned for August 2012 as part of the FY13 budget. By identifying the long-term financing needs of the Town, the Financial Master Plan can be structured to allow 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 Towns Capital Improvements Plan serves as the basis for projects in our Financial Master Plan.

### **MAJOR INITIATIVES IN THE FUTURE**

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

- With the recent completion of a major upgrade to the WPCF to comply with the Chesapeake Bay Act and to increase capacity, our focus on wastewater system improvements has focused more heavily on inflow and infiltration (I&I) reduction in the collection system. Our focus on water system improvements will focus on increasing our water supply and improving service. In FY11, groundwater investigation identified approximately 1 million gallons per day (MGD) of high quality groundwater sources. Securing these new sources is currently underway as well as additional exploration with a total new source target of 3 MGD. Additionally in FY12, projects were initiated to improve water pressure in the higher elevations of Town, deployment of an automatic meter reading system and modifications to the existing dams to comply with new dam regulations. Work on these projects will continue in FY13.
- Transportation and related projects will 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 was started in FY12 with completion in FY13 and several other lower-level street and alleyway projects were begun in FY12.
- 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 not only includes the Town's water and wastewater system and electrical system, but also its buildings, equipment and vehicles. The Town partnered with Davenport & Company in FY10 to develop a Financial Master Plan that looks at near and long term capital needs and structured a plan that allows the Town to make necessary improvements and purchases without putting an undue burden on the tax base. The Town is now in its second full year of implementation of the Financial Master Plan and each year, the Town Council reviews and updates the components of the plan allowing for a document that is current with economic factors facing the community.

## **DEPARTMENT FOCUS**

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

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

The following represents a list of highlights and projects implemented during the fiscal year 2012:

### ***Timely and Accurately Report the Financial Status of the Town***

The Treasurer's has received the Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2011 and it is our goal to achieve this award again for fiscal year ended June 30, 2012. This award is a certificate of achievement for excellence in financial reporting and is presented by the Government Finance Officers Associate of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

### ***Maximize the Collection of Monies due the Town in a Cost-effective Manner***

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

### ***Establish and Maintain Proper Internal Controls***

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

### ***Utilize Technology to Its Fullest Potential***

The Town of Culpeper has upgraded its computer software system, with a new software package which includes; financial reporting, utility billing, property taxes, and other billing functions. The software has enhanced customer service by offering on-line services (bill inquiry, bill payment, and application), electronic payment options, automatic payment/posting service, payroll direct deposit, and automated mortgage payment of real estate taxes. In addition, the software offers more robust reporting capabilities, user-friendly applications, system driven budgeting, and departmental requisition/payroll time entry capabilities. Online payment services and payment-by-phone services were implemented in FY11 with enhancements in FY12 and FY13 will see continued improvements for payment and customer services.

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROLS**

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

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

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

### **OTHER INFORMATION**

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

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

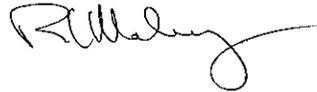
***Awards.*** The Government Finance Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Culpeper for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2011. The Certificate of achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

**Acknowledgments.** The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of all of the departments of the Town of Culpeper. Each member of these departments has our sincere appreciation for the contributions made in the preparation of this report.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Mabry", with a long horizontal flourish extending to the right.

Ronald L. Mabry  
Town Treasurer / Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Culpeper  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

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



*Christopher P. Moynell*

President

*Jeffrey R. Enew*

Executive Director

**TOWN OF CULPEPER, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**

**TOWN COUNCIL**

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

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

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

**APPOINTED OFFICIALS**

**TOWN MANAGER**  
Kimberly L. Alexander

**TOWN CLERK**  
Kimberly D. Allen

**TREASURER/DIRECTOR OF FINANCE**  
Ronald L. Mabry

**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

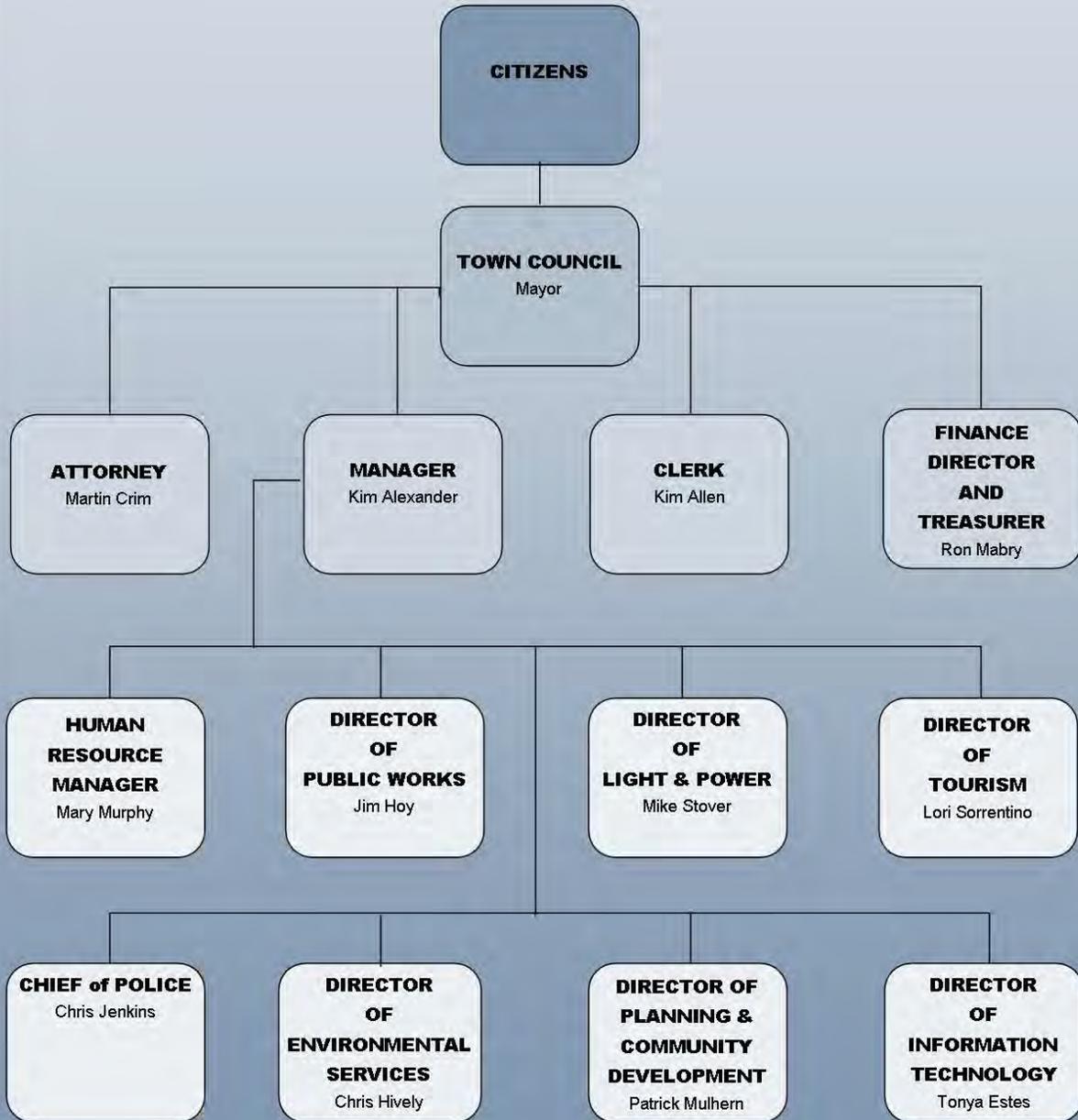
**DIRECTOR OF INFORMATION TECHNOLOGY**  
Tonya Estes

**TOURISM DIRECTOR**  
Lori Sorrentino

**DIRECTOR OF ENVIRONMENTAL SERVICES**  
Chris Hively

**HUMAN RESOURCES  
MANAGER**  
Mary Murphy

# TOWN OF CULPEPER ORGANIZATIONAL CHART



# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, other supplementary information section, and the statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
November 20, 2012

## 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, 2012 and 2011. 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 \$79,075,252 (net assets). Of this amount, \$30,738,156 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$1,533,703, which is primarily attributable to less grant money being received as well as less interest earned on investments and higher departmental expenses for 2012.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$10,045,574, an increase of \$538,123 in comparison with the prior year. Approximately 3.14% of this total amount, \$314,975 or 2.28% of total general fund expenditures, is available for spending at the government's discretion (unassigned fund balance).
- The Town's total debt decreased by \$1,116,841 (2.7%) during the current fiscal year due to debt service pay down.

### Overview of the Financial Statements

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

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

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

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

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

## Overview of the Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

## Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$79,075,252 at the close of the most recent fiscal year.

**Government-Wide Financial Analysis (Continued)**

A portion of the Town’s net assets, \$47,738,338 (60.53%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Town’s net assets, \$598,758 (.76%), is restricted for the cemetery fund. The remaining balance of *unrestricted net assets* (38.71%) may be used to meet the government’s ongoing obligations to citizens and creditors.

	The Town’s Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,647,405	\$ 12,285,598	\$ 25,264,787	\$ 28,131,777	\$ 37,912,192	\$ 40,417,375
Capital assets	30,248,862	31,532,510	57,503,278	56,802,314	87,752,140	88,334,824
Total assets	42,896,267	43,818,108	82,768,065	84,934,091	125,665,332	128,752,199
Long-term liabilities	13,330,962	11,991,925	28,338,951	28,146,422	41,669,913	40,138,347
Current liabilities	2,186,730	3,689,903	2,732,437	4,314,994	4,919,167	8,004,897
Total liabilities	15,517,692	15,681,828	31,071,388	32,461,416	46,589,080	48,143,244
Net assets						
Invested in capital assets, net of related debt	17,766,505	19,124,836	29,971,833	24,320,985	47,738,338	43,445,821
Restricted	598,758	542,416	-	-	598,758	542,416
Unrestricted	9,013,312	8,469,028	21,724,844	28,151,690	30,738,156	36,620,718
Total net assets	\$ 27,378,575	\$ 28,136,280	\$ 51,696,677	\$ 52,472,675	\$ 79,075,252	\$ 80,608,955

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

The Town’s net assets decreased by \$1,533,703, or 1.9%, during the current fiscal year. The key elements of this change are related to higher departmental expenses, less interest earned on investments and less grant money received during the fiscal year.

**Governmental Activities** – Governmental activities decreased the Town’s net assets by \$757,705. Key elements of this decrease are as follows:

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

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

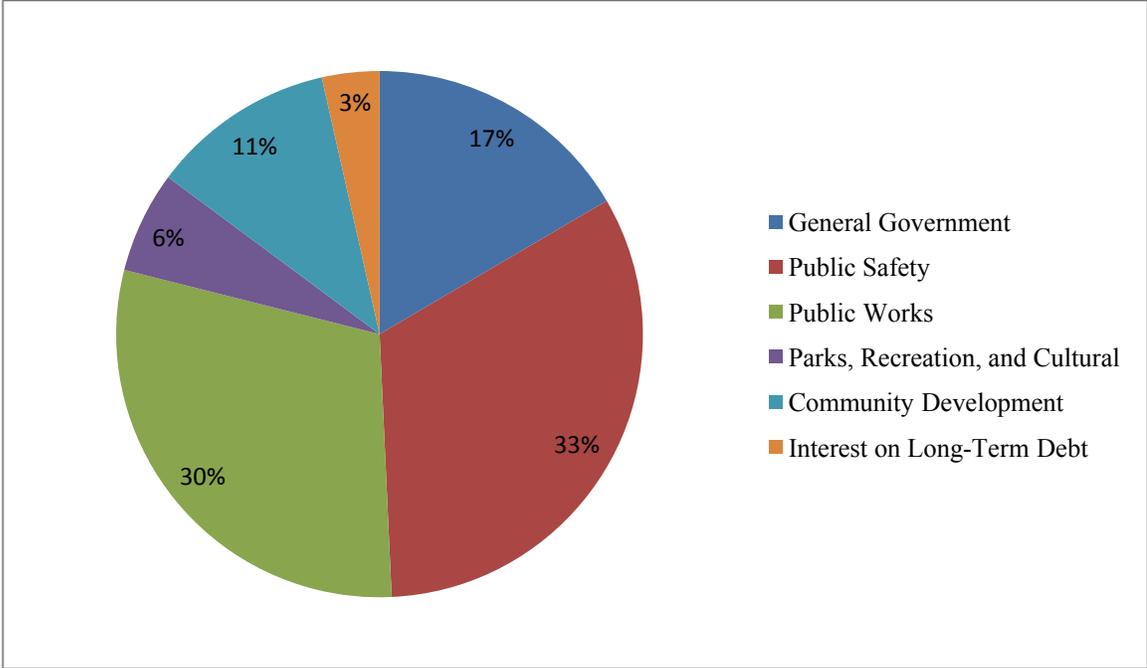
**Government-Wide Financial Analysis (Continued)**

**Business-type Activities** – Business-type activities decreased the Town’s net assets by \$775,998. Key elements of this decrease are as follows:

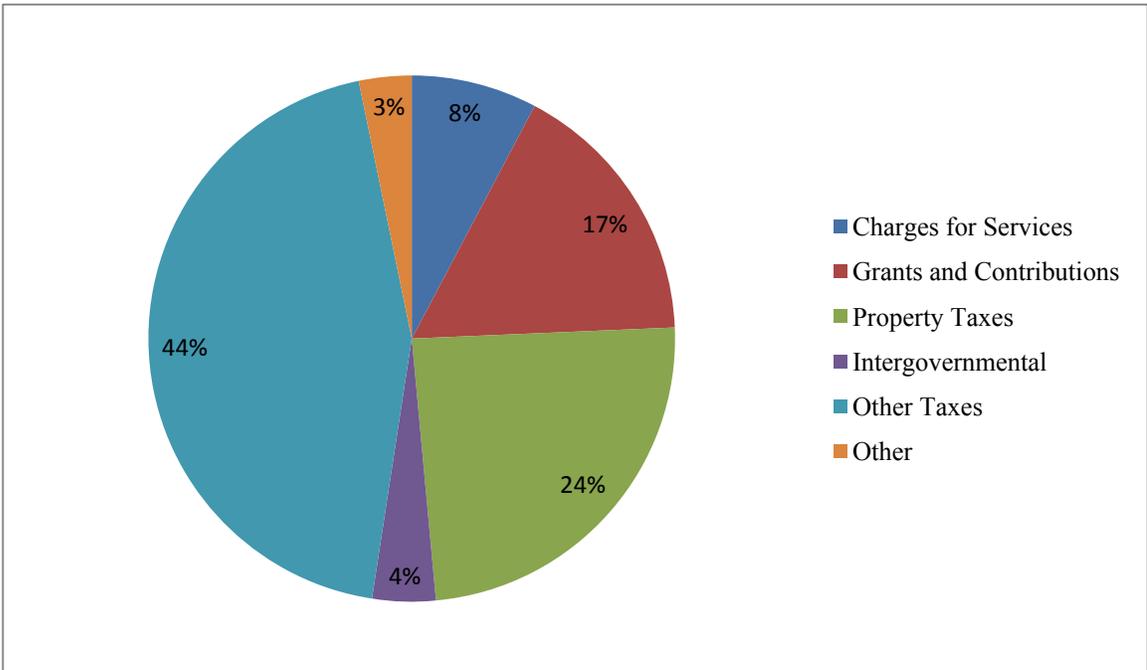
- Less interest earned on investments.
- Less money received for capital grants and contributions.
- Higher electric departmental expenses mainly due to the credit for electric generation received from VMEA being discontinued in FY12.

	<b>The Town’s Changes in Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues						
Program revenues						
Charges for services	\$ 882,390	\$ 808,347	\$17,469,397	\$16,778,283	\$18,351,787	\$17,586,630
Operating grants and contributions	1,892,927	2,527,695	-	-	1,892,927	2,527,695
Capital grants and contributions	-	-	2,083	11,806	2,083	11,806
General revenues						
Property taxes	2,764,759	2,757,576	-	-	2,764,759	2,757,576
Other taxes	5,061,340	4,716,652	-	-	5,061,340	4,716,652
Intergovernmental revenue unrestricted	443,255	285,193	-	-	443,255	285,193
Investment earnings	13,663	22,309	216,685	252,103	230,348	274,412
Other	54,908	163,583	1,433,610	1,252,125	1,488,518	1,415,708
Total revenues	<u>11,113,242</u>	<u>11,281,355</u>	<u>19,121,775</u>	<u>18,294,317</u>	<u>30,235,017</u>	<u>29,575,672</u>
Expenses						
General government	2,014,118	1,337,825	-	-	2,014,118	1,337,825
Public safety	3,982,363	4,014,472	-	-	3,982,363	4,014,472
Public works	3,609,893	3,230,087	-	-	3,609,893	3,230,087
Parks, recreation, and cultural	759,713	581,190	-	-	759,713	581,190
Community development	1,374,210	1,854,682	-	-	1,374,210	1,854,682
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	430,650	338,982	-	-	430,650	338,982
Water	-	-	3,080,472	2,989,018	3,080,472	2,989,018
Wastewater	-	-	5,322,081	5,480,065	5,322,081	5,480,065
Electric	-	-	11,195,220	10,158,556	11,195,220	10,158,556
Total expenses	<u>12,170,947</u>	<u>11,357,238</u>	<u>19,597,773</u>	<u>18,627,639</u>	<u>31,768,720</u>	<u>29,984,877</u>
Excess (deficiency) before transfers	(1,057,705)	(75,883)	(475,998)	(333,322)	(1,533,703)	(409,205)
Transfers	<u>300,000</u>	<u>300,000</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	(757,705)	224,117	(775,998)	(633,322)	(1,533,703)	(409,205)
Net assets – July 1	<u>28,136,280</u>	<u>27,912,163</u>	<u>52,472,675</u>	<u>53,105,997</u>	<u>80,608,955</u>	<u>81,018,160</u>
Net assets – June 30	<u>\$27,378,575</u>	<u>\$28,136,280</u>	<u>\$51,696,677</u>	<u>\$52,472,675</u>	<u>\$79,075,252</u>	<u>\$80,608,955</u>

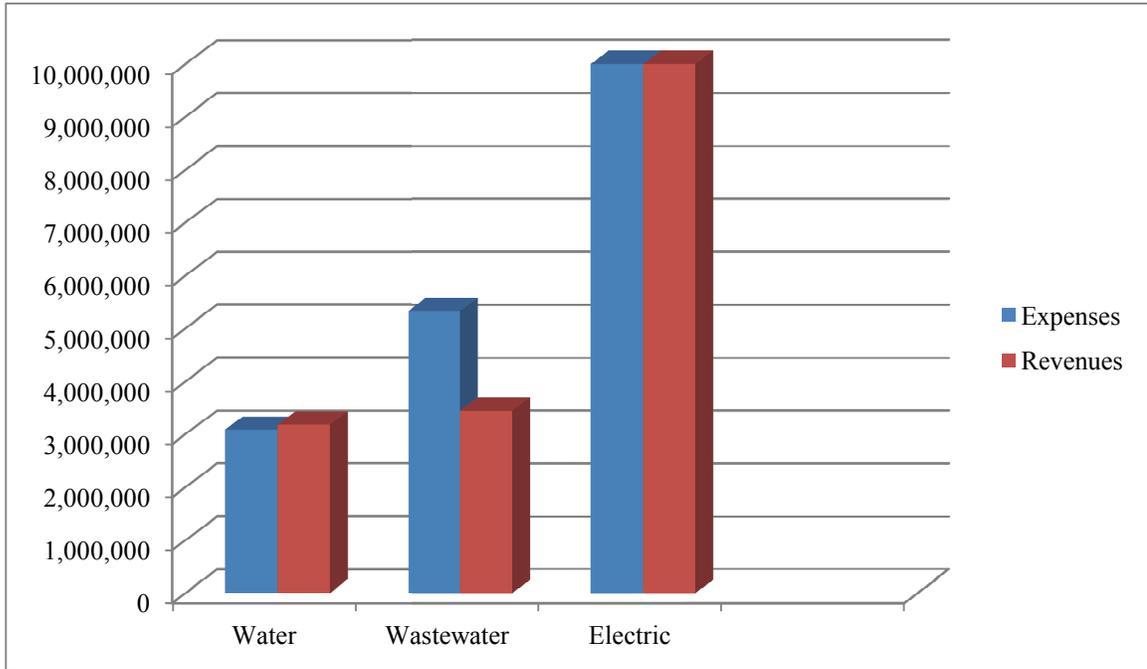
**Expenses – Governmental Activities**



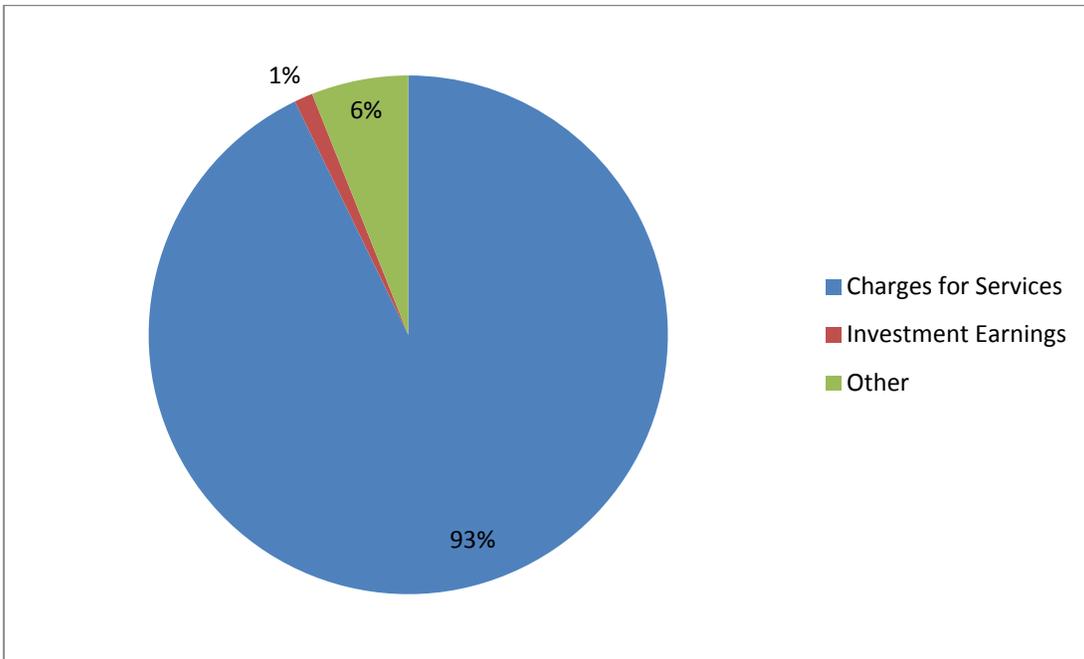
**Revenues by Source – Governmental Activities**



**Expenses and Program Revenues – Business-Type Activities**



**Revenues by Source – Business-Type Activities**



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$10,045,574, an increase of \$538,123 in comparison with the prior year. Approximately 3.14% of this total amount – that is, \$314,975 constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. The remainder of fund balance is *nonspendable, 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 2.28% of total governmental fund expenditures, while total fund balance represents 73% of that same amount.

The fund balance of the Town's general fund increased by \$481,781 during the current fiscal year. The primary reasons behind this increase are:

- General obligation bonds were received in the amount of \$900,000 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 assets of the water fund at the end of the year equaled \$14,861,859; the wastewater fund equaled \$5,129,605; and the unrestricted net assets for the electric fund amounted to \$1,733,380. The total decrease in net assets was \$775,998. 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 \$4,480,904. Highlights are as follows:

- Route 220 Widening/Roundabout construction funds were carried forward to FY12 from FY11 in the amount of \$3,106,626.
- Western Inner Loop Roadway project funds were carried forward to FY12 from FY11 in the amount of \$241,264.
- Historic Streetscapes & Entryways Phase II – Pedestrian Sidewalks – Madison Highway project funds were carried forward to FY12 from FY11 in the amount of \$694,360.
- West Street Widening engineering and construction funds were carried forward from FY11 to FY12 in the amount of \$170,210.
- Various operating departments carried forward to FY12 from FY11 funds for incomplete projects in the total amount of \$172,798.

## General Fund Budgetary Highlights (Continued)

Differences between the final amended budget and actual results amounted to \$9,335,662. Highlights are as follows:

- Minimal was spent on General Fund Projects for FY12 because projects were not started as expected, or were not completed in FY12 as expected creating a difference of \$8,590,872 between final budget numbers and actual.
- The Parks, Recreation, and Cultural departments minimized expenses for the year creating a variance of \$97,097 between final budget and actual.
- Actual additional revenues in the amount of \$556,329 were received in FY12 that was not accounted for in the final FY12 budget.

## 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, 2012, amounts to \$87,752,140 (net of accumulated depreciation). This includes land; construction in progress; buildings and system improvements; and machinery, equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year was .66% (a 4.07% decrease for governmental activities and a 1.23% 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,069,505	\$ 1,069,505	\$ 1,340,731	\$ 1,340,731	\$ 2,410,236	\$ 2,410,236
Buildings and improvements	21,445,891	21,398,736	95,912,167	95,095,593	117,358,058	116,494,329
Machinery and equipment	5,489,536	5,100,158	3,530,061	3,371,806	9,019,597	8,471,964
Infrastructure	33,161,116	33,137,446	-	-	33,161,116	33,137,446
Construction in progress	989,357	876,799	2,967,405	636,540	3,956,762	1,513,339
Less accumulated depreciation	(31,906,543)	(30,050,134)	(46,247,086)	(43,642,356)	(78,153,629)	(73,692,490)
Total	\$ 30,248,862	\$ 31,532,510	\$ 57,503,278	\$ 56,802,314	\$ 87,752,140	\$ 88,334,824

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.
- General real estate and personal property tax, local sales tax, meals tax and lodging tax receipts show increases while most other taxes remain relatively steady.
- 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 \$40,779,906. This amount is comprised of debt backed by the full faith and credit of the government.

	<b>The Town’s Outstanding Debt</b>					
	<b>General Obligation Bonds</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
General obligation bonds	\$ 12,081,167	\$ 11,897,290	\$ 27,514,833	\$ 28,887,710	\$ 39,596,000	\$ 40,785,000
Other obligations payable	-	-	109,073	-	109,073	-
Bond premium	785,708	827,959	641,123	677,876	1,426,831	1,505,835
Loss on refunding	(119,935)	(130,838)	(232,063)	(263,250)	(351,998)	(394,088)
<b>Total</b>	<b>\$ 12,746,940</b>	<b>\$ 12,594,411</b>	<b>\$ 28,032,966</b>	<b>\$ 29,302,336</b>	<b>\$ 40,779,906</b>	<b>\$ 41,896,747</b>

The Town’s total debt decreased by \$1,116,841 or 2.7% during the current fiscal year due to scheduled debt payoff.

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

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

**Requests for Information**

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

# **BASIC FINANCIAL STATEMENTS**

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## TOWN OF CULPEPER, VIRGINIA

## STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority	Parking Authority
<b>ASSETS</b>					
Cash and cash equivalents (Note 2)	\$ 9,582,904	\$ 21,559,550	\$ 31,142,454	\$ 79,877	\$ 1,239
Receivables, net (Note 3)	473,116	2,188,785	2,661,901	-	1,783
Accrued interest receivable	-	8,035	8,035	-	-
Due from component unit (Note 4)	39,736	-	39,736	-	-
Due from other governmental units (Note 5)	445,340	-	445,340	-	-
Inventories	-	976,444	976,444	-	-
Cash and cash equivalents, restricted (Note 2)	1,760,916	-	1,760,916	-	-
Prepaid expenses	80,810	30,452	111,262	-	-
Deferred expenses	264,583	501,521	766,104	-	-
Capital assets: (Note 6)				-	-
Nondepreciable	2,058,862	4,308,136	6,366,998	-	-
Depreciable, net	28,190,000	53,195,142	81,385,142	-	-
Total assets	<u>42,896,267</u>	<u>82,768,065</u>	<u>125,664,332</u>	<u>79,877</u>	<u>3,022</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	365,055	1,164,523	1,529,578	-	-
Accrued payroll and related liabilities	354,087	173,895	527,982	-	-
Accrued interest payable	168,780	396,855	565,635	-	-
Due to primary government	-	-	-	-	39,736
Customer security deposits	-	997,164	997,164	-	-
Other liabilities	1,298,808	-	1,298,808	-	-
Noncurrent liabilities: (Note 7)					
Due within one year	1,199,078	1,685,465	2,884,543	-	-
Due in more than one year	12,131,884	26,653,486	38,785,370	-	-
Total liabilities	<u>15,517,692</u>	<u>31,071,388</u>	<u>46,589,080</u>	<u>-</u>	<u>39,736</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	17,766,505	29,971,833	47,738,338	-	-
Restricted:					
Cemetery fund-nonexpendable	598,758	-	598,758	-	-
Unrestricted	9,013,312	21,724,844	30,738,156	79,877	(36,714)
Total net assets	<u>\$ 27,378,575</u>	<u>\$ 51,696,677</u>	<u>\$ 79,075,252</u>	<u>\$ 79,877</u>	<u>\$ (36,714)</u>

## TOWN OF CULPEPER, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Industrial Development Authority	Parking Authority
						Business- Type Activities	Totals		
						Total			
Governmental activities:									
General government administration	\$ 2,014,118	\$ -	\$ -	\$ -	\$ (2,014,118)	\$ -	\$ (2,014,118)	\$ -	\$ -
Public safety	3,982,363	244,823	316,177	-	(3,421,363)	-	(3,421,363)	-	-
Public works	3,609,893	216,426	1,543,340	-	(1,850,127)	-	(1,850,127)	-	-
Parks, recreation, and cultural	759,713	401,784	5,000	-	(352,929)	-	(352,929)	-	-
Community development	1,374,210	19,357	28,410	-	(1,326,443)	-	(1,326,443)	-	-
Interest on long-term debt	430,650	-	-	-	(430,650)	-	(430,650)	-	-
Total governmental activities	12,170,947	882,390	1,892,927	-	(9,395,630)	-	(9,395,630)	-	-
Business-type activities:									
Water	3,080,472	3,177,413	-	-	-	96,941	96,941	-	-
Wastewater	5,322,081	3,436,827	-	2,083	-	(1,883,171)	(1,883,171)	-	-
Electric	11,195,220	10,855,157	-	-	-	(340,063)	(340,063)	-	-
Total business-type activities	19,597,773	17,469,397	-	2,083	-	(2,126,293)	(2,126,293)	-	-
Total primary government	\$ 31,768,720	\$ 18,351,787	\$ 1,892,927	\$ 2,083	(9,395,630)	(2,126,293)	(11,521,923)	-	-
Component Units:									
Industrial development authority	\$ 227,470	\$ 225,577	\$ -	\$ -	-	-	-	(1,893)	-
Parking authority	-	-	-	-	-	-	-	-	-
Total component units	\$ 227,470	\$ 225,577	\$ -	\$ -	-	-	-	(1,893)	-
General revenues:									
Property taxes					2,764,759	-	2,764,759	-	-
Sales tax					1,257,483	-	1,257,483	-	-
Business license tax					1,060,265	-	1,060,265	-	-
Bank stock tax					273,240	-	273,240	-	-
Cigarette tax					126,516	-	126,516	-	-
Hotel and motel room tax					299,089	-	299,089	-	-
Meals tax					1,846,124	-	1,846,124	-	-
Other local taxes					198,623	-	198,623	-	-
Intergovernmental revenue, unrestricted					443,255	-	443,255	-	-
Unrestricted investment earnings					13,663	216,685	230,348	-	-
Other					54,908	1,433,610	1,488,518	-	-
Transfers (Note 4)					300,000	(300,000)	-	-	-
Total general revenues and transfers					8,637,925	1,350,295	9,988,220	-	-
Change in net assets					(757,705)	(775,998)	(1,533,703)	(1,893)	-
<b>Net assets at July 1</b>					28,136,280	52,472,675	80,608,955	81,770	(36,714)
<b>Net assets at June 30</b>					\$ 27,378,575	\$ 51,696,677	\$ 79,075,252	\$ 79,877	\$ (36,714)

## TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET –  
GOVERNMENTAL FUNDS  
June 30, 2012**

	<b>General Fund</b>	<b>Permanent Fund Cemetery Perpetual Care</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,984,146	\$ 598,758	\$ 9,582,904
Cash and cash equivalents, restricted	1,760,916	-	1,760,916
Receivables, net (Note 3)	473,116	-	473,116
Prepays	80,810	-	80,810
Due from component unit	39,736	-	39,736
Due from other governmental units (Note 5)	445,340	-	445,340
Total assets	<u>\$ 11,784,064</u>	<u>\$ 598,758</u>	<u>\$ 12,382,822</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 365,055	\$ -	\$ 365,055
Accrued payroll and related liabilities	354,087	-	354,087
Deferred revenue	319,298	-	319,298
Other liabilities	1,298,808	-	1,298,808
Total liabilities	<u>2,337,248</u>	<u>-</u>	<u>2,337,248</u>
Fund balances: (Note 8)			
Nonspendable	80,810	598,758	679,568
Restricted	470,772	-	470,772
Committed	7,931,602	-	7,931,602
Assigned	648,657	-	648,657
Unassigned	314,975	-	314,975
Total fund balances	<u>9,446,816</u>	<u>598,758</u>	<u>10,045,574</u>
Total liabilities and fund balances	<u>\$ 11,784,064</u>	<u>\$ 598,758</u>	<u>\$ 12,382,822</u>

## TOWN OF CULPEPER, VIRGINIA

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

June 30, 2012

<b>Total Fund Balances – Governmental Funds</b>		\$ 10,045,574
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:		
Nondepreciable	\$ 2,058,862	
Depreciable, net	<u>28,190,000</u>	
		30,248,862
Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt in the statement of net assets:		
Issuance costs of \$302,568 and accumulated amortization of \$37,985	264,583	
Bond premiums total \$873,009 and accumulated amortization of \$87,301	(785,708)	
Deferred loss on refunding total \$141,741 and accumulated amortization of \$21,806.	<u>119,935</u>	
		(401,190)
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.		
		319,298
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(12,081,167)	
Accrued interest payable	(168,780)	
Other post-employment benefits	(100,784)	
Compensated absences	<u>(483,238)</u>	
		<u>(12,833,969)</u>
<b>Total Net Assets – Governmental Activities</b>		<u>\$ 27,378,575</u>

## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Permanent Fund Cemetery Perpetual Care</u>	<u>Total</u>
<b>REVENUES</b>			
General property taxes	\$ 2,793,951	\$ -	\$ 2,793,951
Other local taxes	5,041,015	-	5,041,015
Permits, privilege fees, and regulatory licenses	294,185	-	294,185
Fines and forfeitures	129,778	-	129,778
Revenues from use of money and property	190,700	1,208	191,908
Charges for services	229,429	55,134	284,563
Other	46,727	-	46,727
Recovered costs	2,009,672	-	2,009,672
Intergovernmental	2,342,176	-	2,342,176
Total revenues	<u>13,077,633</u>	<u>56,342</u>	<u>13,133,975</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	2,703,451	-	2,703,451
Public safety	3,902,392	-	3,902,392
Public works	3,045,848	-	3,045,848
Parks, recreation, and cultural	715,352	-	715,352
Community development	1,335,520	-	1,335,520
Capital projects	841,828	-	841,828
Debt service:			
Principal retirement	716,123	-	716,123
Interest and fiscal charges	419,506	-	419,506
Bond issuance costs	115,832	-	115,832
Total expenditures	<u>13,795,852</u>	<u>-</u>	<u>13,795,852</u>
Excess (deficiency) of revenues over expenditures	<u>(718,219)</u>	<u>56,342</u>	<u>(661,877)</u>
<b>OTHER FINANCING SOURCES</b>			
Issuance of general obligation bonds	900,000	-	900,000
Transfers in	300,000	-	300,000
Total other financing sources	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>
Net change in fund balances	481,781	56,342	538,123
<b>FUND BALANCES AT JULY 1</b>	8,965,035	542,416	9,507,451
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 9,446,816</u>	<u>\$ 598,758</u>	<u>\$ 10,045,574</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, 2012

<b>Net Change in Fund Balances – Governmental Funds</b>		\$ 538,123
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 \$572,761 were exceeded by depreciation expense of \$1,856,409 in the current period.		(1,283,648)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(11,061)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Debt principal repayment	\$ 716,123	
Changes in deferred charges on bond issuance costs	77,847	
Proceeds from bonds	(900,000)	
Changes in bond premiums	42,251	
Changes in loss on refunding	<u>(10,903)</u>	
		(74,682)
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	110,782	
Change in other post-employment benefits	(32,712)	
Change in accrued interest payable	<u>(4,507)</u>	
		<u>73,563</u>
<b>Change in Net Assets – Governmental Activities</b>		<u><u>\$ (757,705)</u></u>

## TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET ASSETS –  
PROPRIETARY FUNDS

June 30, 2012

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water</b>	<b>Wastewater</b>	<b>Electric</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 14,675,096	\$ 5,152,523	\$ 1,731,931	\$ 21,559,550
Receivables, net (Note 3)	377,628	430,463	1,380,694	2,188,785
Accrued interest receivable	8,035	-	-	8,035
Prepays	9,848	10,640	9,964	30,452
Inventories	194,327	94,303	687,814	976,444
Total current assets	<u>15,264,934</u>	<u>5,687,929</u>	<u>3,810,403</u>	<u>24,763,266</u>
Noncurrent assets:				
Deferred expenses	10,763	414,694	76,064	501,521
Capital assets: (Note 6)				
Nondepreciable	2,768,457	185,600	1,354,079	4,308,136
Depreciable, net	6,171,588	39,614,028	7,409,526	53,195,142
Total noncurrent assets	<u>8,950,808</u>	<u>40,214,322</u>	<u>8,839,669</u>	<u>58,004,799</u>
Total assets	<u>24,215,742</u>	<u>45,902,251</u>	<u>12,650,072</u>	<u>82,768,065</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	44,321	90,162	1,030,040	1,164,523
Accrued payroll and related liabilities	48,816	58,476	66,603	173,895
Accrued interest payable	35,036	302,960	58,859	396,855
Current portion of long-term debt (Note 7)	400,593	774,067	299,926	1,474,586
Compensated absences (Note 7)	53,344	72,571	84,964	210,879
Customer security deposits	195,035	-	802,129	997,164
Total current liabilities	<u>777,145</u>	<u>1,298,236</u>	<u>2,342,521</u>	<u>4,417,902</u>
Noncurrent liabilities:				
Long-term debt (Note 7)	2,515,215	20,013,994	4,029,171	26,558,380
Other post-employment benefits (Note 14)	13,187	16,012	13,187	42,386
Compensated absences (Note 7)	13,336	18,143	21,241	52,720
Total noncurrent liabilities	<u>2,541,738</u>	<u>20,048,149</u>	<u>4,063,599</u>	<u>26,653,486</u>
Total liabilities	<u>3,318,883</u>	<u>21,346,385</u>	<u>6,406,120</u>	<u>31,071,388</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	6,035,000	19,426,261	4,510,572	29,971,833
Unrestricted	14,861,859	5,129,605	1,733,380	21,724,844
Total net assets	<u>\$ 20,896,859</u>	<u>\$ 24,555,866</u>	<u>\$ 6,243,952</u>	<u>\$ 51,696,677</u>

**TOWN OF CULPEPER, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS –**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2012**

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water</b>	<b>Wastewater</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 3,140,402	\$ 3,385,915	\$ 10,675,012	\$ 17,201,329
Penalties	29,796	29,796	30,701	90,293
Other charges	7,215	21,116	149,444	177,775
Total operating revenues	<u>3,177,413</u>	<u>3,436,827</u>	<u>10,855,157</u>	<u>17,469,397</u>
<b>OPERATING EXPENSES</b>				
Water treatment	1,831,900	-	-	1,831,900
Wastewater collection	-	434,563	-	434,563
Wastewater treatment	-	2,407,008	-	2,407,008
Transmission and distribution	466,988	-	1,033,494	1,500,482
Power purchased (Note 10)	-	-	8,242,200	8,242,200
Administration	-	-	792,897	792,897
Other	110,183	164,053	48,945	323,181
Depreciation	531,501	1,544,308	788,751	2,864,560
Total operating expenses	<u>2,940,572</u>	<u>4,549,932</u>	<u>10,906,287</u>	<u>18,396,791</u>
Operating income (loss)	<u>236,841</u>	<u>(1,113,105)</u>	<u>(51,130)</u>	<u>(927,394)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	189,669	25,356	1,660	216,685
Interest expense	(139,900)	(774,496)	(288,933)	(1,203,329)
Gain on disposal of capital assets	-	2,347	-	2,347
Tap fees	561,934	871,676	-	1,433,610
Net nonoperating revenue (expenses)	<u>611,703</u>	<u>124,883</u>	<u>(287,273)</u>	<u>449,313</u>
Income (loss) before transfers and capital contributions	848,544	(988,222)	(338,403)	(478,081)
<b>TRANSFERS OUT (Note 4)</b>	(100,000)	(100,000)	(100,000)	(300,000)
<b>CAPITAL CONTRIBUTIONS</b>	-	2,083	-	2,083
Change in net assets	748,544	(1,086,139)	(438,403)	(775,998)
<b>NET ASSETS AT JULY 1</b>	20,148,315	25,642,005	6,682,355	52,472,675
<b>NET ASSETS AT JUNE 30</b>	<u>\$ 20,896,859</u>	<u>\$ 24,555,866</u>	<u>\$ 6,243,952</u>	<u>\$ 51,696,677</u>

**TOWN OF CULPEPER, VIRGINIA**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**Year Ended June 30, 2012**

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water</b>	<b>Wastewater</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,155,882	\$ 3,388,545	\$ 10,999,589	\$ 17,544,016
Payments to suppliers	(1,586,067)	(1,936,983)	(8,670,251)	(12,193,301)
Payments to employees	(1,039,040)	(1,205,952)	(1,281,357)	(3,526,349)
Net cash provided by operating activities	<u>530,775</u>	<u>245,610</u>	<u>1,047,981</u>	<u>1,824,366</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund transfers	(100,000)	(100,000)	(100,000)	(300,000)
Net cash used in noncapital financing activities	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(300,000)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from bond issuance	-	-	109,073	109,073
Purchases of capital assets	(1,802,906)	(334,778)	(1,370,893)	(3,508,577)
Proceeds from disposal of capital asset	-	25,000	-	25,000
Principal paid on capital debt	(381,076)	(743,367)	(248,434)	(1,372,877)
Interfund advance for capital items	3,705,166	-	(3,705,166)	-
Capital grant	-	2,083	-	2,083
Tap fees collected	561,934	871,676	-	1,433,610
Interest paid on capital debt	(141,668)	(775,307)	(364,491)	(1,281,466)
Net cash provided by (used in) capital and related financing activities	<u>1,941,450</u>	<u>(954,693)</u>	<u>(5,579,911)</u>	<u>(4,593,154)</u>
<b>INVESTING ACTIVITIES</b>				
Interest received	266,925	25,356	1,660	293,941
Net cash provided by investing activities	<u>266,925</u>	<u>25,356</u>	<u>1,660</u>	<u>293,941</u>
Net increase (decrease) in cash and cash equivalents	2,639,150	(783,727)	(4,630,270)	(2,774,847)
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	12,035,946	5,936,250	6,362,201	24,334,397
Ending at June 30	<u>\$ 14,675,096</u>	<u>\$ 5,152,523</u>	<u>\$ 1,731,931</u>	<u>\$ 21,559,550</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 236,841	\$ (1,113,105)	\$ (51,130)	\$ (927,394)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	531,501	1,544,308	788,751	2,864,560
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(17,795)	(48,282)	142,766	76,689
Inventories	(61,655)	2,982	(23,433)	(82,106)
Prepays	(1,973)	(855)	(1,520)	(4,348)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(140,969)	(141,803)	172,424	(110,348)
Accrued payroll and related liabilities	(7,051)	(2,843)	2,499	(7,395)
Customer security deposits	(3,736)	-	1,666	(2,070)
Other post-employment benefits	4,280	5,197	4,280	13,757
Compensated absences	(8,668)	11	11,678	3,021
Net cash provided by operating activities	<u>\$ 530,775</u>	<u>\$ 245,610</u>	<u>\$ 1,047,981</u>	<u>\$ 1,824,366</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital asset purchases included in accounts payable at year end	<u>\$ 24,368</u>	<u>\$ 43,557</u>	<u>\$ 13,118</u>	<u>\$ 81,043</u>
Capitalized interest	<u>\$ 35,430</u>	<u>\$ 2,691</u>	<u>\$ 17,701</u>	<u>\$ 55,822</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies**

**A. The Financial Reporting Entity**

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

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

Discretely Presented Component Units:

Discretely presented component units are entities that are legally separate from the Town, but for which the Town is financially accountable, or whose relationship with the Town is such that exclusion would cause the Town’s financial statements to be misleading or incomplete. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Town. The Town is financially accountable for these component units because they approve their budget and must approve any debt issuances.

*Industrial Development Authority of the Town of Culpeper*

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

*Parking Authority of the Town of Culpeper*

The Parking Authority manages parking facilities for the Town.

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

**B. Government-Wide and Fund Financial Statements**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012**

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

The Town reports the following major proprietary funds:

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

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

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

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

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

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

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

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

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgets and Budgetary Accounting**

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

- 1) Prior to June 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the department level.
- 4) Formal budgetary integration is employed as a management control device for all funds.
- 5) The budget for the general fund is adopted on the modified accrual basis of accounting.

All appropriations which are not encumbered lapse at year end.

**E. Cash and Cash Equivalents**

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

**F. Allowance for Uncollectible Accounts**

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

**G. Inventories**

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

**H. Capital Assets**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Capital Assets (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$14,363 in interest expense was included as part of the cost of capital assets under construction.

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

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

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

**I. Deferred Expenses**

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

**J. Deferred Revenues**

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

**K. Compensated Absences**

Employees accumulate vacation time and sick leave depending upon their length of service. Accumulated vacation is paid upon termination. Sick leave is paid to 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred expenses and amortized over the term of the related debt.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 management which 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, 2012**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**N. Restricted Amounts**

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

**O. Minimum Fund Balance Policy**

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

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

**P. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. General fund encumbrances are \$8,345,764 as of June 30.

**Q. Estimates**

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

**Note 2. Deposits and Investments**

**Deposits**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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	\$ 20,633,934	NA	62.71 %
LGIP	12,269,436	AAAm	37.29
	<u>\$ 32,903,370</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, 2012**

**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.

	<b>Fair Value</b>
Cash on hand	\$ 1,350
Deposits	20,632,584
Investments	12,269,436
Total deposits and investments	\$ 32,903,370
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 31,142,454
Cash and cash equivalents, restricted	1,760,916
Total deposits and investments	\$ 32,903,370

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for performance bonds in the amount of \$1,322,544 and unspent bond proceeds in the amount of \$438,372.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 3. Receivables**

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	\$ 409,491	\$ -	\$ -	\$ -	\$ 409,491
Accounts	235,493	383,338	436,518	1,401,044	2,456,393
Gross receivables	644,984	383,338	436,518	1,401,044	2,865,884
Less: allowance for uncollectibles	(171,868)	(5,710)	(6,055)	(20,350)	(203,983)
Receivables, net	<u>\$ 473,116</u>	<u>\$ 377,628</u>	<u>\$ 430,463</u>	<u>\$ 1,380,694</u>	<u>\$ 2,661,901</u>

**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 negative cash in the pooled funds account.

Interfund transfers are as follows:

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

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

**Note 5. Due From Other Governmental Units**

Amounts due from other governmental units are as follows:

	<u>Governmental Activities</u>
County of Culpeper:	
Local sales tax	\$ 216,029
Federal Government:	
FEMA – Earthquake Reimbursement	212,706
Other	16,605
	<u>\$ 445,340</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 6. Capital Assets**

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 1,069,505	\$ -	\$ -	\$ 1,069,505
Construction in progress	876,799	112,558	-	989,357
Total capital assets, not depreciated	<u>1,946,304</u>	<u>112,558</u>	<u>-</u>	<u>2,058,862</u>
Capital assets, depreciated:				
Buildings and improvements	21,398,736	47,155	-	21,445,891
Machinery and equipment	5,100,158	389,378	-	5,489,536
Infrastructure	33,137,446	23,670	-	33,161,116
Total capital assets, depreciated	<u>59,636,340</u>	<u>460,203</u>	<u>-</u>	<u>60,096,543</u>
Less accumulated depreciation:				
Buildings and improvements	9,047,913	509,003	-	9,556,916
Machinery and equipment	3,840,302	436,893	-	4,277,195
Infrastructure	17,161,919	910,513	-	18,072,432
Total accumulated depreciation	<u>30,050,134</u>	<u>1,856,409</u>	<u>-</u>	<u>31,906,543</u>
Net capital assets, depreciated	<u>29,586,206</u>	<u>(1,396,206)</u>	<u>-</u>	<u>28,190,000</u>
Governmental activities capital assets, net	<u>\$ 31,532,510</u>	<u>\$ (1,283,648)</u>	<u>\$ -</u>	<u>\$ 30,248,862</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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	636,540	2,967,405	636,540	2,967,405
Total capital assets, not depreciated	<u>1,977,271</u>	<u>2,967,405</u>	<u>636,540</u>	<u>4,308,136</u>
Capital assets, depreciated				
Buildings and improvements	95,095,593	816,574	-	95,912,167
Machinery and equipment	3,371,806	440,738	282,483	3,530,061
Total capital assets, depreciated	<u>98,467,399</u>	<u>1,257,312</u>	<u>282,483</u>	<u>99,442,228</u>
Less accumulated depreciation				
Buildings and improvements	40,850,055	2,653,644	-	43,503,699
Machinery and equipment	2,792,301	210,916	259,830	2,743,387
Total accumulated depreciation	<u>43,642,356</u>	<u>2,864,560</u>	<u>259,830</u>	<u>46,247,086</u>
Net capital assets, depreciated	<u>54,825,043</u>	<u>(1,607,248)</u>	<u>22,653</u>	<u>53,195,142</u>
Business-type activities capital assets, net	<u>\$ 56,802,314</u>	<u>\$ 1,360,157</u>	<u>\$ 659,193</u>	<u>\$ 57,503,278</u>

Depreciation expense was charged to functions/programs as follows:

**Primary Government – Governmental Activities**

General government administration	\$ 391,445
Public safety	333,995
Public works	1,077,027
Parks, recreation, and cultural	44,427
Community development	9,515
Total governmental activities	<u>\$ 1,856,409</u>

**Primary Government – Business-Type Activities**

Water	\$ 531,501
Wastewater	1,544,308
Electric	788,751
Total business-type activities	<u>\$ 2,864,560</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 7. Long-Term Liabilities**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 11,897,290	\$ 900,000	\$ 716,123	\$ 12,081,167	\$ 779,741
Bond premium	827,959	-	42,251	785,708	43,650
Loss on refunding	(130,838)	-	(10,903)	(119,935)	(10,903)
Other post-employment benefits	68,072	32,712	-	100,784	-
Compensated absences	594,020	483,238	594,020	483,238	386,590
Governmental activities long-term liabilities	<u>\$ 13,256,503</u>	<u>\$ 1,415,950</u>	<u>\$ 1,341,491</u>	<u>\$ 13,330,962</u>	<u>\$ 1,199,078</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 28,887,710	\$ -	\$ 1,372,877	\$ 27,514,833	\$ 1,429,259
Other obligations payable	-	109,073	-	109,073	41,643
Bond premium	677,876	-	36,753	641,123	34,769
Loss on refunding	(263,250)	-	(31,187)	(232,063)	(31,085)
Other post-employment benefits	28,629	13,757	-	42,386	-
Compensated absences	260,578	263,599	260,578	263,599	210,879
Business-Type activities long-term liabilities	<u>\$ 29,591,543</u>	<u>\$ 386,429</u>	<u>\$ 1,639,021</u>	<u>\$ 28,338,951</u>	<u>\$ 1,685,465</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:

<b>Year Ended June 30</b>	<b>Governmental Activities</b>	
	<b>General Obligation Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 779,741	\$ 409,379
2014	788,736	392,216
2015	811,756	375,107
2016	835,012	355,121
2017	858,268	331,010
2018-2022	3,844,485	1,283,226
2023-2027	3,788,169	470,222
2028-2032	375,000	28,625
	<u>\$ 12,081,167</u>	<u>\$ 3,644,906</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 7. Long-Term Liabilities (Continued)**

Year Ended June 30	Business-Type Activities					
	General Obligation Bonds		Other Obligations Payable		Total Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,429,259	\$ 1,065,826	\$ 41,643	\$ 6,127	\$ 1,470,902	\$ 1,071,953
2014	1,474,264	1,022,854	21,795	2,090	1,496,059	1,024,944
2015	1,493,244	978,512	22,470	1,415	1,515,714	979,927
2016	1,535,988	929,207	23,165	720	1,559,153	929,927
2017	1,597,732	873,849	-	-	1,597,732	873,849
2018-2022	5,642,515	3,629,452	-	-	5,642,515	3,629,452
2023-2027	4,481,831	2,669,259	-	-	4,481,831	2,669,259
2028-2032	4,125,000	1,787,275	-	-	4,125,000	1,787,275
2033-2037	4,675,000	875,938	-	-	4,675,000	875,938
2038-2042	1,060,000	47,700	-	-	1,060,000	47,700
	<u>\$ 27,514,833</u>	<u>\$ 13,879,872</u>	<u>\$ 109,073</u>	<u>\$ 10,352</u>	<u>\$ 27,623,906</u>	<u>\$ 13,890,224</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	\$ -	\$ 2,740,000
General Obligation Public Improvement Bond	3.25% - 4.50%	2008	2038	17,895,000	1,275,000	15,615,000
General Obligation Public Improvement and Refunding Bond	2.86%	2009	2014	676,000	256,479	64,521
General Obligation Refunding Bond	2.75%	2010	2030	19,925,000	9,749,688	9,095,312
General Obligation Public Improvement Bond	1.57%	2011	2016	900,000	800,000	-
					12,081,167	27,514,833

Other Obligations Payable:

Capital lease	3.10%	2011	2016	\$ 109,073	-	109,073
Total long-term debt					<u>\$ 12,081,167</u>	<u>\$ 27,623,906</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, 2012**

**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:

	<b>General Fund</b>	<b>Other Governmental Funds</b>
Nonspendable:		
Prepays	\$ 80,810	\$ -
Cemetery perpetual care	-	598,758
Total nonspendable	80,810	598,758
Restricted for:		
Public safety	6,187	-
Community development	464,585	-
Total restricted	470,772	-
Committed to:		
Community development	1,496,956	
Other capital projects	6,434,646	-
Total committed	7,931,602	-
Assigned to:		
General government administration	178,084	
Public safety	4,231	
Public works	120,999	-
Community development	345,343	-
Total assigned	648,657	-
Unassigned	314,975	-
Total fund balance	\$ 9,446,816	\$ 598,758

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 9. Defined Benefit Pension Plan**

**Plan Description**

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

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

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

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

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

**TOWN OF CULPEPER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 9. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

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

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

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. The employer may assume all or part of this 5.00% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the year ended 2012 was 15.27% and 10.27% of annual covered payroll for Plan 1 and Plan 2 employees, respectively.

**Annual Pension Cost**

For 2012, the Town's annual pension cost of \$725,975 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, 2012	\$ 725,975	100%	\$ -
June 30, 2011	\$ 712,470	100%	\$ -
June 30, 2010	\$ 701,676	100%	\$ -

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 9. Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was 72.71% funded. The actuarial accrued liability for benefits was \$31,581,077 and the actuarial value of assets was \$22,963,880, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,617,197. The covered payroll (annual payroll of active employees covered by the plan) was \$7,073,996, and the ratio of the UAAL to the covered payroll was 121.82%.

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 approximately \$7,916,660 for the year ended June 30, 2012. Of these purchases, \$1,005,171 is included in accounts payable as of June 30, 2012. 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. Included in both expenses and accounts payable for 2012 is an additional true-up expense of \$218,198 for the period January 1, 2011 through December 31, 2011. 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, therefore the true-up amount for calendar year 2012, will not be recorded until fiscal year 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 2011 taxes due January 31, 2012 was \$.13 per \$100 of assessed value. The personal property tax rate was \$1.00 per \$100 of assessed value. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The Town bills and collects its own property taxes.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 2012 were approximately \$135,000.

**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 \$78 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 2012 were approximately \$336,000.

**Other**

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

**Note 13. Commitments and Contingencies**

**Grant Programs**

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

**Litigation**

Certain lawsuits are pending against the Town. In the opinion of the Town's management, after consulting with counsel, the potential loss, if any, given insurance coverage, will not materially affect the Town's financial position.

The Town also has threatened litigation relating to potential negligence. Should the outcome be unfavorable for the Town, there is the possibility the Town could be liable for damages. The Town has insurance coverage for such claims, which management feels is adequate to cover potential claims related to this incident.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2010 was as follows:

Retirees currently receiving benefits	4
Active employees	152
Total	156

**Funding Policy**

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

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 74,002
Interest on net OPEB obligation	3,868
Adjustment to annual required contribution	-
Annual OPEB cost	77,870
Contributions made	(31,401)
Increase in net OPEB obligation	46,469
Net OPEB obligation – beginning of year	96,701
Net OPEB obligation – end of year	\$ 143,170

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

**TOWN OF CULPEPER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 14. Other Post-Employment Benefits (Continued)**

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 77,870	40.32%	\$ 46,469
June 30, 2011	\$ 73,800	33.60%	\$ 49,000
June 30, 2010	\$ 70,100	31.96%	\$ 47,699

**Funding Status and Funding Progress**

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

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

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

**Actuarial Methods and Assumptions**

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

In the June 30, 2010 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4% rate of return and an initial annual healthcare cost trend of 8.2% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.70%. In addition, the actuarial assumptions include salary increases of 3.5% to 4.75% depending on an employees' years of service. The unfunded accrued liability is being amortized over 30 years as a level percent of payroll method on an open basis. Payroll is assumed to increase 3.75% per annum. The remaining amortization period at June 30, 2010 is 30 years.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 will go 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. When the boundary line adjustment occurs, certain assets of the County may become assets of the Town. The Town has agreed to reduce BPOL taxes for at least one year by 20% in all categories and areas.

**Note 16. Subsequent Events**

In August 2012, the Town closed on a \$10,000,000 General Obligation Bond, Series 2012A, which will be used to finance a variety of capital projects for the Town's General Fund, including the Inner Loop project, Water Fund, and Electric Fund. The Bond will bear interest at 2.10% per year, subject to certain resets, and matures on August 1, 2027. The Town also obtained a \$5,000,000 Taxable General Obligation Line of Credit, which will be used by the Town to fund construction costs of the Inner Loop project while awaiting reimbursement from VDOT. The line of credit will mature on August 1, 2014 and bears interest at the 1-month London Interbank Offered Rate plus 1.05%.

In September 2012, the Industrial Development Authority of the Town closed on a \$1,037,000 Taxable Lease Revenue Bond, Series 2012, which will be used to pay down a loan the Salem Volunteer Fire Department acquired in 2006 in order to construct and equip a fire station. The Bond will have a fixed rate of interest at 3.375% per year over a 40-year term. In turn, the IDA will lease-back the property to the fire department for annual rent of \$47,630, which represents the principal and interest due on the bond each year. The bond is expected to mature on September 25, 2052.

**Note 17. New Accounting Standards**

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

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

**TOWN OF CULPEPER, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 17. New Accounting Standards (Continued)**

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

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

**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.

**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.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**Note 17. New Accounting Standards (Continued)**

**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.

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

**REQUIRED  
SUPPLEMENTARY INFORMATION**

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## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
General property taxes	\$ 3,191,216	\$ 3,191,216	\$ 2,793,951	\$ (397,265)
Local sales and use taxes	975,000	975,000	1,239,353	264,353
Business license tax	978,000	978,000	1,060,265	82,265
Franchise license tax	125,000	125,000	137,179	12,179
Bank stock tax	270,000	270,000	273,240	3,240
Cigarette tax	140,000	140,000	126,516	(13,484)
Hotel and motel room tax	280,000	280,000	299,089	19,089
Food and beverage tax	1,775,000	1,775,000	1,846,124	71,124
Local consumption tax	54,000	54,000	59,249	5,249
Permits, privilege fees, and regulatory licenses	245,700	245,700	294,185	48,485
Fines and forfeitures	164,000	164,000	129,778	(34,222)
Revenues from use of money and property	222,100	222,100	190,700	(31,400)
Charges for services	215,474	215,474	229,429	13,955
Other	77,000	77,000	46,727	(30,273)
Recovered costs	1,767,702	1,767,702	2,009,672	241,970
Intergovernmental	2,013,514	2,041,112	2,342,176	301,064
Total revenues	<u>12,493,706</u>	<u>12,521,304</u>	<u>13,077,633</u>	<u>556,329</u>
<b>EXPENDITURES</b>				
Current:				
General government administration				
Town council	157,635	157,635	146,274	11,361
Town manager	261,322	262,117	287,012	(24,895)
Town clerk	223,964	225,554	228,875	(3,321)
Human resources	235,732	151,736	102,799	48,937
Legal services	125,000	125,000	123,730	1,270
Independent auditor	33,300	33,300	60,445	(27,145)
Treasurer	766,281	771,580	863,484	(91,904)
Disaster-emergency	-	-	709	(709)
Risk management	129,782	129,782	78,444	51,338
Information technology	544,593	595,693	570,636	25,057
Motor pool	233,163	234,753	229,771	4,982
Electoral board	15,000	15,000	11,272	3,728
Total general government administration	<u>2,725,772</u>	<u>2,702,150</u>	<u>2,703,451</u>	<u>(1,301)</u>
Public safety				
Police department	4,059,474	4,088,998	3,902,392	186,606
Total public safety	<u>\$ 4,059,474</u>	<u>\$ 4,088,998</u>	<u>\$ 3,902,392</u>	<u>\$ 186,606</u>

(Continued)

## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Public works				
Public works administration	\$ 290,471	\$ 259,521	\$ 149,530	\$ 109,991
Streets	1,936,203	1,948,092	1,997,624	(49,532)
Refuse collection	362,016	364,666	364,044	622
General properties	445,322	628,944	534,650	94,294
Total public works	<u>3,034,012</u>	<u>3,201,223</u>	<u>3,045,848</u>	<u>155,375</u>
Parks, recreation, and cultural				
Parks and recreation	539,172	561,562	526,430	35,132
Cemetery	249,297	250,887	188,922	61,965
Total parks, recreation, and cultural	<u>788,469</u>	<u>812,449</u>	<u>715,352</u>	<u>97,097</u>
Community development				
Planning and zoning	476,595	521,223	686,556	(165,333)
Visitors center	85,821	85,821	80,637	5,184
Tourism	235,078	236,138	211,853	24,285
Economic development	106,250	106,250	106,250	-
Contributions	226,789	244,387	250,224	(5,837)
Total community development	<u>1,130,533</u>	<u>1,193,819</u>	<u>1,335,520</u>	<u>(141,701)</u>
Capital projects				
Capital projects	4,400,409	9,432,700	841,828	8,590,872
Debt service:				
Principal retirement	615,880	615,880	716,123	(100,243)
Interest and fiscal charges	412,134	412,134	419,506	(7,372)
Bond issuance costs	-	115,832	115,832	-
Total debt service	<u>1,028,014</u>	<u>1,143,846</u>	<u>1,251,461</u>	<u>(107,615)</u>
Total expenditures	<u>17,166,683</u>	<u>22,575,185</u>	<u>13,795,852</u>	<u>8,779,333</u>
Excess of expenditures over revenues	<u>(4,672,977)</u>	<u>(10,053,881)</u>	<u>(718,219)</u>	<u>9,335,662</u>
<b>OTHER FINANCING SOURCES</b>				
Issuance of general obligation bonds	-	900,000	900,000	-
Transfers in	300,000	300,000	300,000	-
Total other financing sources	<u>300,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>-</u>
Net change in fund balances	<u>\$ (4,372,977)</u>	<u>\$ (8,853,881)</u>	<u>\$ 481,781</u>	<u>\$ 9,335,662</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, 2012

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>((b-a)/c) UAAL as of Percentage of Covered Payroll</b>
<b>DEFINED BENEFIT PLAN (VRS)</b>						
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%
June 30, 2009	\$ 21,993,140	\$ 27,236,463	\$ 5,243,323	80.75%	\$ 7,090,682	73.95%
<b>OTHER POST-EMPLOYMENT BENEFITS</b>						
June 30, 2010	\$ -	\$ 645,400	\$ 645,400	0.00%	\$ 7,408,500	8.71%

**OTHER  
SUPPLEMENTARY INFORMATION**

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## TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET – GOVERNMENTAL FUNDS  
DISCRETELY PRESENTED COMPONENT UNITS  
June 30, 2012**

	<b>Industrial Development Authority</b>	<b>Parking Authority</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 79,877	\$ 1,239	\$ 81,116
Receivables, net	-	1,783	1,783
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 79,877</u>	<u>\$ 3,022</u>	<u>\$ 82,899</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Due to primary government	\$ -	\$ 39,736	\$ 39,736
Fund balances			
Assigned	79,877	-	79,877
Unassigned	-	(36,714)	(36,714)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 79,877</u>	<u>\$ 3,022</u>	<u>\$ 82,899 *</u>

\*There are no reconciling items between the modified accrual and the accrual basis as reported on Exhibit 1.

## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
DISCRETELY PRESENTED COMPONENT UNITS  
Year Ended June 30, 2012**

	<u>Industrial Development Authority</u>	<u>Parking Authority</u>	<u>Total</u>
<b>REVENUES</b>			
Charges for services	\$ 225,577	-	\$ 225,577
<b>EXPENDITURES</b>			
Public works	-	-	-
Community development	227,470	-	227,470
Total expenditures	227,470	-	227,470
Excess of expenditures over revenues	(1,893)	-	(1,893)
Net change in fund balances	(1,893)	-	(1,893)
<b>FUND BALANCES AT JULY 1</b>	81,770	(36,714)	45,056
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 79,877</u>	<u>\$ (36,714)</u>	<u>\$ 43,163 *</u>

\*There are no reconciling items between the modified accrual and the accrual basis as reported on Exhibit 2.

# STATISTICAL SECTION

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*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.*

<b><u>Contents</u></b>	<b><u>Table</u></b>
<b>Financial Trends</b> These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	<b>1-4</b>
<b>Revenue Capacity</b> These tables contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.	<b>5-8</b>
<b>Debt Capacity</b> 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.	<b>9-12</b>
<b>Demographic and Economic Information</b> 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.	<b>13-14</b>
<b>Operating Information</b> 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.	<b>15-17</b>

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

TABLE 1

## TOWN OF CULPEPER, VIRGINIA

**NET ASSETS BY COMPONENT**  
**Last Eight Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year							
	2012	2011	2010	2009 <sup>(1)</sup>	2008	2007	2006	2005
<b>Governmental Activities</b>								
Invested in capital assets, net of related debt	\$ 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	598,758	542,416	592,481	-	1,415,016	2,709,578	-	-
Unrestricted	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 assets	<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>
<b>Business-Type Activities</b>								
Invested in capital assets, net of related debt	\$ 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	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 assets	<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>
<b>Primary Government</b>								
Invested in capital assets, net of related debt	\$ 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	598,758	542,416	592,481	2,470,415	20,634,121	2,709,578	-	-
Unrestricted	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 assets	<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

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

TABLE 2

**TOWN OF CULPEPER, VIRGINIA**  
**CHANGES IN NET ASSETS BY COMPONENT**  
**Last Eight Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
<b>Expenses</b>								
<b>Governmental Activities:</b>								
General government	\$ 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	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	3,609,893	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	759,713	581,190	541,764	555,241	629,683	624,332	472,106	448,082
Community development	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	430,650	338,982	509,832	295,133	276,215	157,203	145,391	156,384
Total governmental activities	12,170,947	11,357,238	11,597,075	11,877,485	11,202,351	10,960,042	10,261,836	9,157,346
<b>Business-Type Activities:</b>								
Water	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	5,322,081	5,480,065	3,745,960	4,778,920	4,316,981	3,507,532	3,116,891	2,935,237
Electric	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	19,597,773	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	31,768,720	29,984,877	27,063,800	29,297,046	28,634,430	25,894,207	23,830,036	20,967,536
<b>Program Revenues</b>								
<b>Governmental Activities:</b>								
Charges for services:								
Public safety	244,823	188,207	217,637	158,783	157,226	151,259	175,421	128,426
Public works	216,426	134,538	149,335	75,307	110,628	155,174	717,210	408,363
Parks, recreation, and cultural	401,784	477,141	358,254	387,853	370,169	342,453	298,384	292,739
Community development	19,357	8,461	9,678	-	-	-	-	8,090
Operating grants and contributions	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	-	-	-	-	4,479	49,458	-	85,000
Total governmental activities program revenues	2,775,317	3,336,042	3,015,724	2,366,563	2,822,095	2,277,876	2,586,783	2,298,848
<b>Business-Type Activities:</b>								
Charges for services:								
Water	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	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	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	2,083	11,806	2,823,708	817,398	2,234,966	-	-	-
Total business-type activities program revenues	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	20,246,797	20,126,131	21,980,334	19,229,428	24,813,608	20,986,744	22,120,712	18,983,908
<b>Net (Expense) Revenue</b>								
Governmental activities	(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	(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	(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 ASSETS BY COMPONENT**  
**Last Eight Fiscal Years**  
**(accrual basis of accounting) (continued)**

	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
<b>General Revenues and Other Changes</b>								
<b>Governmental Activities:</b>								
Taxes								
Property taxes	\$ 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	1,257,483	986,332	1,069,068	937,575	934,160	930,601	1,021,269	872,257
Business license tax	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	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	273,240	329,972	271,467	235,807	209,900	259,624	270,124	218,450
Cigarette tax	126,516	144,010	148,459	177,417	183,449	193,272	196,449	203,219
Hotel and motel room tax	299,089	256,929	256,849	225,343	224,213	231,472	222,157	207,628
Food and beverage tax	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	59,249	53,883	54,759	62,491	62,565	61,972	61,773	50,321
Other local taxes	2,195	4,074	4,245	-	-	-	-	-
Intergovernmental revenue	443,255	285,193	230,617	230,058	257,038	240,733	235,199	262,882
Investment earnings	13,663	22,309	25,398	135,773	265,207	210,197	95,590	37,356
Other	54,908	163,583	453,053	508,078	294,056	249,801	246,002	568,976
Transfers	300,000	300,000	302,145	-	-	-	-	-
Total governmental activities	8,637,925	8,245,313	8,954,291	8,050,290	8,111,582	7,800,550	7,613,972	6,818,334
<b>Business-Type Activities:</b>								
Investment earnings	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	(300,000)	(300,000)	(302,145)	-	-	-	-	-
Total business-type activities	1,350,295	1,204,228	600,739	738,832	1,362,743	1,145,169	762,413	299,664
Total primary government	9,988,220	9,449,541	9,555,030	8,789,122	9,474,325	8,945,719	8,376,385	7,117,998
<b>Changes in Net Assets</b>								
Governmental activities	(757,705)	224,117	372,940	(1,460,632)	(268,674)	(881,616)	(61,081)	(40,164)
Business-type activities	(775,998)	(633,322)	4,098,624	182,136	5,922,177	4,919,872	6,728,142	5,174,534
Total primary government	\$ (1,533,703)	\$ (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 Eight Fiscal Years**  
**(modified accrual basis of accounting)**

	<u>2010</u>	<u>2009<sup>(1)</sup></u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Pre-GASB54:</b>						
<b>General Fund</b>						
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>
<b>All Other Governmental Funds</b>						
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>
	<u>2012</u>	<u>2011</u>				
<b>Post-GASB54:</b>						
<b>General Fund</b>						
Nonspendable	\$ 80,810	\$ 58,070				
Restricted	470,772	265,133				
Committed	7,931,602	83,125				
Assigned	648,657	4,557,951				
Uassigned	314,975	4,000,756				
Total general fund	<u>\$ 9,446,816</u>	<u>\$ 8,965,035</u>				
<b>All Other Governmental Funds</b>						
Nonspendable	\$ 598,758	\$ 542,416				
Total all other governmental funds	<u>\$ 598,758</u>	<u>\$ 542,416</u>				

Note: Trend data is only available since 2005.

<sup>(1)</sup> 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)**

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Revenues</b>										
Taxes	\$ 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	\$ 5,044,113
Permits, privilege fees, and licenses	294,185	278,571	256,426	178,108	201,372	231,778	757,956	375,778	312,347	224,746
Fines and forfeitures	129,778	123,623	166,292	158,783	157,226	151,259	175,421	128,426	186,078	163,223
Investment earnings	191,908	232,691	249,704	356,434	493,722	418,812	303,218	237,078	280,759	126,168
Charges for services	284,563	200,374	92,425	62,041	62,613	57,188	50,010	133,693	157,829	155,288
Other	46,727	122,168	401,587	510,323	297,707	249,847	246,002	564,368	601,359	140,600
Recovered costs	2,009,672	2,052,104	1,630,016	1,544,137	1,461,127	1,168,821	758,563	703,636	622,077	554,569
Grant proceeds	-	-	-	25,090	87,655	-	-	-	-	-
Intergovernmental	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	1,461,964
Total revenues	<u>13,133,975</u>	<u>13,417,711</u>	<u>13,097,480</u>	<u>11,929,637</u>	<u>12,376,077</u>	<u>11,273,977</u>	<u>10,939,407</u>	<u>9,828,270</u>	<u>9,259,279</u>	<u>7,870,671</u>
<b>Expenditures</b>										
General government	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	1,369,104
Public safety	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	2,350,111
Public works	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	1,956,248
Parks, recreation, and cultural	715,352	654,533	489,512	512,386	582,890	516,086	452,943	432,798	361,605	330,906
Health and welfare	-	-	-	11,378	5,129	6,907	7,370	7,703	7,393	6,686
Community development	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	729,458
Capital projects	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	746,612
Debt service:										
Principal	716,123	573,103	498,974	835,589	406,721	399,388	388,500	376,465	263,790	303,115
Interest	419,506	412,271	393,527	299,844	273,288	168,525	148,077	159,260	127,178	17,270
Bond issuance costs	115,832	150,834	27,991	-	-	-	-	-	-	-
Total expenditures	<u>13,795,852</u>	<u>13,792,229</u>	<u>13,509,302</u>	<u>16,060,238</u>	<u>13,484,988</u>	<u>11,995,199</u>	<u>11,584,654</u>	<u>9,867,398</u>	<u>12,098,827</u>	<u>7,809,510</u>
Excess of revenues over (under) expenditures	<u>(661,877)</u>	<u>(374,518)</u>	<u>(411,822)</u>	<u>(4,130,601)</u>	<u>(1,108,911)</u>	<u>(721,222)</u>	<u>(645,247)</u>	<u>(39,128)</u>	<u>(2,839,548)</u>	<u>61,161</u>
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	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	54,261
Transfers in	300,000	300,000	302,145	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>1,200,000</u>	<u>450,834</u>	<u>5,931,145</u>	<u>540,124</u>	<u>1,607,021</u>	<u>3,750,000</u>	<u>-</u>	<u>4,607</u>	<u>2,814,706</u>	<u>54,261</u>
Net change in fund balances	<u>\$ 538,123</u>	<u>\$ 76,316</u>	<u>\$ 5,519,323</u>	<u>\$ (3,590,477)</u>	<u>\$ 498,110</u>	<u>\$ 3,028,778</u>	<u>\$ (645,247)</u>	<u>\$ (34,521)</u>	<u>\$ (24,842)</u>	<u>\$ 115,422</u>
Debt service as a percentage of noncapital expenditures	<u>8.59%</u>	<u>7.91%</u>	<u>7.87%</u>	<u>9.86%</u>	<u>6.64%</u>	<u>5.59%</u>	<u>5.83%</u>	<u>6.16%</u>	<u>5.23%</u>	<u>4.75%</u>

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		
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
2003	444,808,500	87,004,208	25,713,679	34,704,097	414,810	592,645,294	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
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
2003	0.13	0.80	0.80	0.13	0.80	0.81	2.50

TABLE 7

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

**June 30, 2012**

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Culpeper Memorial Hospital, Inc	Medical	\$24,505,700	1.84%
Society for Worldwide Interbank Transfers	Banking operations	18,398,500	1.38%
Dominion Square-Culpeper LLC	Shopping center	12,896,100	0.97%
Wal-Mart Real Estate Business Properties	Retail/grocery	10,905,600	0.82%
Continental 181 Fund LLC	Manufacturing	9,861,100	0.74%
Masco Builder Cabinet Group	Manufacturing	6,541,200	0.49%
CMH Health Corporation	Medical	6,490,900	0.49%
Culpeper Shopping Center	Shopping center	6,400,100	0.48%
Southridge/Culpeper LP	Shopping center	6,384,600	0.48%
Culpeper House Limited Partnership	Multi-family housing	6,274,200	0.47%

**June 30, 2005**

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

Note: Information available only for 2005 to present.

TABLE 8

## TOWN OF CULPEPER, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 2,723,711	\$ 2,648,044	97.22%	\$ -	\$ 2,648,044	97.22%
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				
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
2003	1,943,221	6,299,342	1,468,396	748,728	-	10,459,687	3.50%	981

TABLE 10

**TOWN OF CULPEPER, VIRGINIA**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**Last Ten Fiscal Years**

Fiscal Year	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds		
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
2003	10,459,687	0.32%	182

**TOWN OF CULPEPER, VIRGINIA**  
**LEGAL DEBT MARGIN INFORMATION**  
**Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Debt limit	\$ 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	\$ 45,481,060
Total net debt applicable to limit	<u>12,081,167</u>	<u>11,960,756</u>	<u>13,097,918</u>	<u>7,967,892</u>	<u>8,242,832</u>	<u>7,065,072</u>	<u>3,714,465</u>	<u>4,102,966</u>	<u>4,479,431</u>	<u>1,943,221</u>
Legal debt margin	<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>	<u>\$ 43,537,839</u>
Total net debt applicable to the limit as a percentage of debt limit	<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>	<u>4.27%</u>

**Legal Debt Margin Calculation for Fiscal Year 2012**

Assessed value	<u>\$ 1,196,596,655</u>
Debt limit (10% of assessed value)	\$ 119,659,666
Less debt applicable to limit:	
General obligation bonds	<u>(12,081,167)</u>
Legal debt margin	<u>\$ 107,578,499</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	
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
2003	8,587,219	7,241,738	1,345,481	1,149,502	400,091	0.87

**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.

TOWN OF CULPEPER, VIRGINIA

DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years

<b>Fiscal Year Ended</b>	<b>Population</b>	<b>Personal Income</b>	<b>Median Income</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
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%
2003	10,038	534,002,040	50,094	35	2,307	3.30%

Source: Census Data and Town of Culpeper Planning Department.  
N/A: Not available

## TOWN OF CULPEPER, VIRGINIA

**PRINCIPAL EMPLOYERS**  
**Current Year and Seven Years Ago**

**June 30, 2012**

<b>Employer</b>	<b>Product/Service</b>	<b>Total Estimated Employees</b>	<b>Percent of Workforce</b>
Culpeper County Schools	Public Agency	1155	5.1%
Culpeper Regional Hospital	Health Care	600	2.6%
Walmart	Commercial Retailer	500	2.2%
County of Culpeper Government	Public Agency	478	2.1%
Continental Automotive	Factory	415	1.8%
CINTAS	Service Business	240	1.0%
VA Department of Transportation (VDOT)	Public Agency	213	0.9%
Culpeper Health and Rehabilitation Center	Health Care	186	0.8%
Town of Culpeper	Public Agency	162	0.7%
Merchants Grocery Co., Inc.	Wholesaler	145	0.6%

**June 30, 2005\***

<b>Employer</b>	<b>Product/Service</b>	<b>Total Estimated Employees</b>	<b>Percent of Workforce</b>
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.

## TOWN OF CULPEPER, VIRGINIA

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

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

Function	2012	2011	2010	2009	2008
Public Safety					
Traffic violations	2,180	3,471	4,086	4,149	5,242
Parking violations	1,439	1,643	2,530	3,265	3,391
Arrests	1,386	1,320	499	-	-
Total crimes	1,783	1,823	1,845	1,654	494
Public Works					
Street paving – crack sealant in pounds	20,442	30,000	30,000	30,000	-
Street paving – milling in sq. yds.	21,755	9,575	33,347	17,870	-
Street paving – bituminous concrete in tons	5,495	4,504	4,839	6,645	-
Recycling – cardboard in pounds	81,420	89,320	90,460	74,000	83,000
Recycling – newspaper in pounds	-	-	-	18,500	28,390
Water Operations					
Number of service connections	6,579	6,507	6,466	6,439	6,371
Average daily consumption in gallons	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
Wastewater Operations					
Number of service connections	6,315	6,238	6,190	6,184	6,069
Average daily consumption in gallons	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	4,000,000	4,000,000
Electric Operations					
Number of service connections	5,099	5,063	4,987	4,921	4,885
Average monthly consumption in kilowatt-hours	1,611	1,673	1,466	1,592	N/A
Highest system peak demand in megawatts	25.66	25.72	25.70	25.22	28.00

Note: No information available prior to 2008.

Source: Internal data from various departments.

## TOWN OF CULPEPER, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION  
Last Five Fiscal Years

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia (the “Town”), as of and for the year ended June 30, 2012 which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards & Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

**Internal Control over Financial Reporting**

Management of the Town of Culpeper, Virginia, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

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

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

**Compliance and Other Matters (Continued)**

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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are further described in the accompanying schedule of findings and responses as Items 12-1, 12-2, 12-3, and 12-4.**

We noted certain other matters that we reported to management of the Town in a separate letter dated November 20, 2012.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
November 20, 2012

**TOWN OF CULPEPER, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2012**

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

**STATE COMPLIANCE MATTERS**

Code of Virginia

Budget and Appropriation Laws  
Cash and Investment Laws  
Conflicts of Interest Act  
Local Retirement Systems  
Debt Provisions  
Procurement Laws  
Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Urban Highway Maintenance

**TOWN OF CULPEPER, VIRGINIA**

**SCHEDULE OF FINDINGS AND RESPONSES**

**June 30, 2012**

**A. 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.
- There were significant issues with the bank reconciliation process which caused cash to be materially misstated.
- Inadequate controls over recordkeeping of capital assets.
- Improper accounting for debt related items.
- Inadequate access controls over information technology systems.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2012**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

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

***Recommendation:***

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

***Management's Response:***

Management concurs with this recommendation.

**B. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

**12-1: Approval of Exonerations and Abatements**

***Condition:***

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

***Recommendation:***

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

***Management's Response:***

Management concurs with this recommendation.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2012**

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

**12-2: Budget Overages**

***Condition:***

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

***Recommendation:***

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

***Management's Response:***

Management concurs with this recommendation.

**12-3: Commonwealth of Virginia Disclosure Statements**

***Condition:***

One out of thirty-six members of Town appointed governing bodies did not file statements of economic interest by the deadline as set forth by the Code of Virginia.

***Recommendation:***

Steps should be taken to ensure that these statements are filed and in a timely manner.

***Management's Response:***

Management concurs with this recommendation.

**12-4: Outstanding Checks**

***Condition:***

During our audit, we noted several checks that were outstanding for over one year. The Uniform Disposition of Unclaimed Property Act states that after a period of one year, all unrepresented checks must be turned over to the State of Virginia and an Unclaimed Property Report filed.

***Recommendation:***

Steps should be taken to submit all checks outstanding more than one year to the State.

***Management's Response:***

Management concurs with this recommendation.