

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2004



TOWN OF CULPEPER, VIRGINIA

Prepared by:

Office of the Director of Finance

TOWN OF CULPEPER, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INTRODUCTORY SECTION

October 29, 2004

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, 2004. This report was audited by the independent certified public accounting firm of Thrower, Blanton & Associates, P.C., 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 CAFR is presented in four sections: introductory, financial, statistical and compliance. The introductory section, which is unaudited, includes this transmittal letter, the Town's organizational chart and a list of principal officials. The financial section includes the general purpose, combining, and individual fund and account group financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The compliance section includes independent auditor's reports on internal controls and compliance with applicable laws and regulations, and on compliance with Commonwealth of Virginia laws, regulations, contracts and grants.

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 5,500 customers, and the Fairview Cemetery.

ECONOMIC CONDITION AND OUTLOOK

The Town of Culpeper, a community that in 1991 officially became part of the Washington Metropolitan statistical area, continues to experience moderate growth. In 2002 the Town was designated a “high-growth” community according to US Census Bureau, thus enabling it to solicit proffers from residential developers under Virginia law. Much of this growth can be attributed to the trend of people seeking a high quality small-town environment while escaping from the more urban areas to the north, south and east. The Town completed and adopted its proffer policy in FY04 to take full advantage of the legal provision and the right to capture and reserve capital improvements costs up front.

This growth trend, which is continuing into its second decade, is changing the face of the Town to that of both a regional marketing area and commuter-oriented town. Culpeper is recognized regionally and statewide as a healthy and growing market. The Town’s growth and development demonstrates that new opportunities exist for businesses that have either located in or are looking at building in the area.

Due to this growth and the generally positive conditions that accompany it, the outlook for the Town remains upbeat. The Town enjoys close proximity to the high growth regions of Northern Virginia, Charlottesville and Fredericksburg. The Town also remains a primary commercial and service area of Culpeper County and its neighboring counties. The Town continues to see commercial and industrial development which has led to an increase in the tax base for the community and provided additional employment opportunities for the citizens of the Town of Culpeper.

Not all of the consequences of growth are positive, and the Town faces many challenges in the coming years to address the demands on capital facilities and operations from a growing population.

The Town is experiencing steady activity in commercial development. The Town has worked with several developers concerning major new projects on undeveloped properties within the Town and extensive rehabilitation of structures in the downtown area. As of June 30, 2004, Culpeper’s unemployment rate was 2.5%, which is considerably lower than the State and National average of 3.8% and 5.8%, respectively.

MAJOR INITIATIVES FOR THE YEAR

The Town of Culpeper continues to provide services to residents in an effective and responsive manner. Town Council adopted two policy changes in FY04 that strengthened its financial outlook. First, it increased the Tap Privilege Fees for individual sewer connections. Council annually reviews the long-range water and wastewater capital facilities needs and adjusts accordingly the tap fees. Its philosophy is to fund future capital improvements with cash instead of debt, and strives to set tap fees that, with conservative investment earnings, will attain that goal.

The Town also adopted a more moderately diversified investment plan. For many years, all of the Town’s cash reserves were maintained in the Local Government Investment Pool (LGIP). While secure and liquid, the LGIP provided very low yields. In 2003, the Town’s contract financial advisor recommended the investment in an array of federal agencies. However, these agency funds require fairly intensive active management for modest gains in yields. Therefore, beginning in FY04, the Town has invested its reserves in certificates of deposit with varying yields and maturities consistent with the Town’s cash flow needs. This approach will ensure higher returns than the LGIP while maintaining a secure, conservative investment philosophy.

In January 2004, the Town Office was relocated from its 77-year old Town Hall on West Davis Street to a new building on South Main Street. This culminated years of consideration of options to address a shortage of administrative office space. A 2000 Space Needs Analysis concluded that both the existing Town Office and Police Station had barely half the space required for current use and no capacity for expansion. The Town began

searching for alternatives for relocating the Town Office and Police Station. In the fall of 2002, a local attorney approached the Town with an option to lease (and later to buy) his office building at 400 South Main Street. This building, which has a total of 19,115 square feet and was built in 1991, suited the existing and future space needs of the Town Office.

For several months Council considered the relative pros and cons of: renting or buying the property, determining the amount of space needed for Town administrative functions, and balancing the purchase, renovation, and operational costs with rental income from the remainder of the building. On July 1, 2003, the Town purchased the property for \$2,450,000 from Hunter Chapman with a 20-year, general obligation fixed rate financing at 3.75%. With the purchase, the Town assumed the lease to the Virginia Department of Health – Water Quality Division that continues to reside on the second floor. The Town now also leases half the third floor to another tenant, Huntley, Nyce, and Associates engineers. These two tenants generate \$115,000 in annual revenue.

The Town completed renovations of the first floor and half the third floor in the first six months of FY04 and moved in the building over the Martin Luther King, Jr. holiday weekend. With minimal disruption to operations or inconvenience to citizens, the Town Office resumed business as normal on Tuesday, January 20 at 8 a.m. at the new location.

The Police Department completed most of the requirements for the Commission on Accreditation for Law Enforcement Agencies, Inc. (CALEA), in FY04. The final assessment process was conducted in November 2004; the Police Department anticipates formal notification of accreditation in the Spring of 2005. National accreditation is awarded to only a few of the highest achieving departments after meeting stringent requirements. Our pending award is a credit to the leadership of Town Council and the Police Department.

Three major utility projects were under construction in FY04. Work continues on the \$1.1 million Keller Pump Station Upgrade and Relief Sewer Project. The new sewer facilities will also serve the Germanna Technology Center, the National Audiovisual Conservation Center, and future development as well as redirecting gravity sewer flows in amore efficient manner to the Wastewater Treatment Plant. It is scheduled for completion in the spring of 2005.

The upgrade of Waste Water Treatment Plant (WWTP) began in FY03 and was substantially complete in June of 2004. This \$4.3 million project has increased the peak flow capacity of the plant with improvements to the headworks, filtration process, and flow equalization system. While it does not add treatment capacity to the plant, the combined effect of the aforementioned Relief Sewer Project, the WWTP upgrade, and continued Inflow and Infiltration abatement is to improve system-wide sewer collection and treatment efficiency.

A substantial portion of the Light & Power Generation Relocation Project was completed is FY04. The project is highlighted further in the department focus below. The 67-year old Light & Power generation facility on Spring Street has outlived its useful life and had recently posed a negative environmental impact on its immediate residential neighbors. The \$1.5 million project includes relocating the facility to Chandler Street and purchasing new, more efficient, and quieter engines and generator equipment. The new facility will be fully operational in December 2004.

The Town also engaged an engineering firm to assess it future water supply capacity in a Water Supply Master Plan. After surveying the sediment deposition in Lake Pelham and comparing it with data from 1993, and also projecting 45-year growth demands on the water supply, the study concluded that there is ample safe yield in Lake Pelham for the next 25 years. The existing 4.4 Million Gallons per Day (MGD) safe yield in Lake Pelham will begin to be stretched during the second 25 years (2029–2050). As alternatives to planning for a new impoundment to address those needs during that period, the Master Plan recommended several comparably less expensive and incremental improvements that will increase the safe yield by over 50%. The Water Supply Master Plan was adopted in February 2004.

Preliminary design on the Western Inner Loop was completed in FY04. This road will bypass the in-town congestion on portions of 522 and North Main Street by diverting commuter traffic to the north and east. Final design is underway and will be complete in the Spring 2005.

MAJOR INITIATIVES IN THE FUTURE

FY05 brings a continued focus on improvement of Town operations. The growth of a tourism program to promote economic development is one major focus. As retail-generated revenue continues to supplant property taxes, the Town will devote significant resources to developing tourism.

The Town has budgeted and continues to make efforts to improve the downtown parking facilities, sidewalks, trails, bikeways and parks. This includes the three-phase \$989,000 Streetscapes and Entryways Project that will be funded 80% by VDOT Enhancement Grant money. Construction will commence on Phase I (and possibly Phase II, simultaneously) in the Spring of 2005.

With the WWTP upgrade completed and additional peak capacity now increased, the Town will focus its efforts on the expansion of the plant for increased rated capacity. Currently, the WWTP plant treats about 2.6 million gallons per day (MGD) of wastewater. Residential growth is rapidly depleting the existing rated 3MGD capacity of the treatment plant, and so the Town has begun the planning and design for an expansion to 6MGD. This project will not only address the capacity needs, but also entail treatment process improvements to meet the new, more stringent nitrogen and phosphorous limits imposed by the Virginia Department of Environmental Quality.

The Town has begun the process of procuring architectural services to guide it in the design and site development for a new Police Station to address the space deficiency of a growing department. Construction on the joint Town/County Emergency Operations Center will be completed in the Spring of 2005. The Town and County are sharing in the capital cost of this \$1 million facility on a 1/3:2/3 basis.

After about a year and half of study, the Town is moving forward with the design and site analysis for a community swimming pool. The planning and design phase is scheduled for completion in FY05 and construction in FY06.

The Town will be participating with other community groups to assist Germanna Community College in the construction of a new technology and workforce training center that has the potential to provide new educational options for residents and assistance to existing and potential businesses. The Tech Center broke ground in the Spring of 2004. The Town also continues to contribute financially to the development of the Hospital Wellness Center along with Culpeper County and private donors to a capital campaign.

DEPARTMENT FOCUS

The Light and Power Department consists of three divisions: administration, distribution and generation. The focus of the department is to provide safe, affordable and reliable electric service to its various customers within the limits of the Town of Culpeper. The department negotiates with Dominion Virginia Power, as well as the Southeastern Power Administration, to purchase wholesale electricity through its purchased power group, Virginia Municipal Electric Association (VMEA). The department operates a peak shaving generation facility to offset the demand requirements of its customers as well as provide emergency back up power to a portion of the Town should a failure of the power delivery system occur.

The administration division is charged with the overall supervision of the department and supervision for the utility services department.

The generation division operates and maintains the peak shaving plant, with employees on call 24-hours per day, seven days per week, for peaking and emergency operations. At the end of FY2004, the generation plant relocation project to Chandler Street is nearing completion. Recent negotiations by the generation division with Dominion Virginia Power resulted in an extension of our wholesale power contract through December 31, 2010.

The Distribution Division is responsible for constructing, operating and maintaining the infrastructure required to safely and efficiently distribute the purchased and generated power to our customers. In addition, this division installs and maintains street lights, automatic traffic control signals and assists with various other electrical tasks assigned by the Town Manager. Assistance is also provided to the Town with holiday decorations, banner installations, as well as, reducing used Christmas trees to chips. Along with these duties, the department is responsible for installation, maintenance and accuracy of all of the Town electric meters.

The Town realized a 7.6% growth in electric customers for the year ending, June 30, 2004, totaling 3,429 connected meters.

Capital improvements to the electric system have increased dramatically during the past few years due to the new residential and commercial customer growth and the new generation facility. Both projects have had significant budget impacts. The generation project is being funded with \$1.5 million in proceeds from the general obligation debt issued in July 2003. In order to keep pace with the rapid increase in new lines and customers, the Town engaged the services of an outside contractor to install new line extensions since March 2003. The capital expenses related to these electric facility extensions totaled \$337,046 and \$758,725 in FY2003 and FY2004, respectively.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

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

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

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

Cash Management Policies and Practices. The Town has the majority of its cash invested in the Local Government Investment Pool and certificates of deposits in various banks, ranging from three to five year terms. The Town earned interest revenue of \$238,542, for the year ended June 30, 2004. The Town's principal investment objectives are: (1) conformance with all federal regulations, state statutes and other legal requirements, including the Town Charter and Town ordinances and the Town's written investment policy, (2) preservation of capital and the protection of investment principal, (3) maintenance of sufficient liquidity to meet anticipated disbursements and cash flows, (4) diversification to avoid incurring unreasonable risks regarding securities owned, and (5) attainment of a high rate of return for the Town's investments. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the Town, its agent or a financial institution's trust department in the Town's name.

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

OTHER INFORMATION

Independent Audit. Virginia law requires that the financial statements of the Town be audited by a Certified Public Accountant (or alternatively, by the Auditor of Public Accounts) selected by Town Council. An annual audit of the Comprehensive Annual Financial Report has been performed by Thrower, Blanton & Associates, P.C. 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 (M D & A). This letter of transmittal is designed to complement the M D & A and should be read in conjunction with it. The Town's M D & 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 in years past. The Certificate of achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

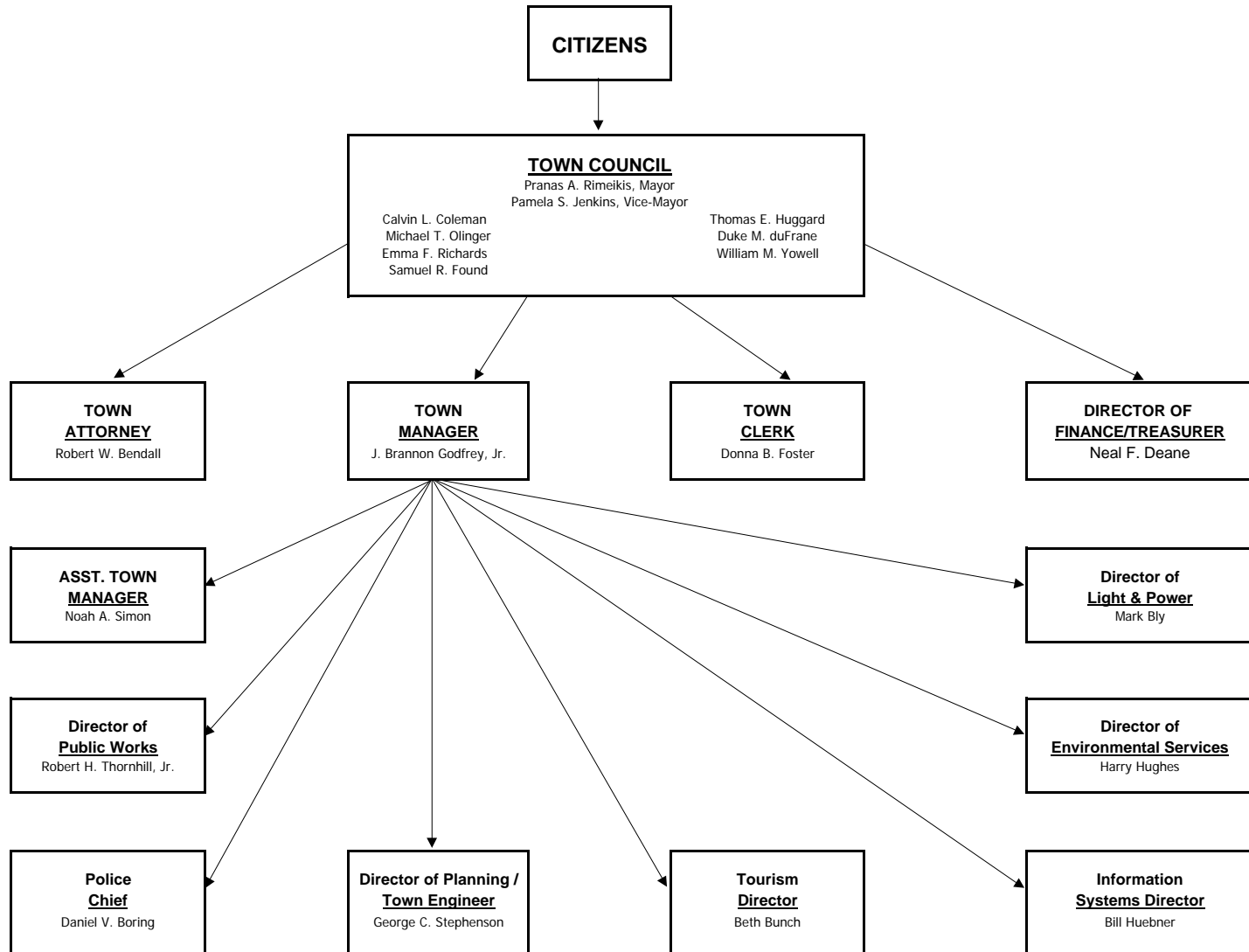
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

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

Sincerely,

Neal F. Deane
Town Treasurer / Director of Finance

TOWN OF CULPEPER, VIRGINIA
 Organizational Chart As Of June 30, 2004



FINANCIAL SECTION

THROWER, BLANTON & ASSOCIATES, P.C.
*Certified Public Accountants
& Consultants*

M. BARDIN THROWER, JR., C.P.A.
BRIAN K. BLANTON, C.P.A.
CHARLES F. LAWSON, C.P.A.

MONROE B. THROWER, C.P.A.
(1918 – 2000)

Founded 1948

Members of American Institute of
Certified Public Accountants
Virginia & Tennessee Society of
Certified Public Accountants

P.O. Box 1266
1028 Park Avenue, NE
Norton, Virginia 24273
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Culpeper, Virginia 22701

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, 2004, 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 of Culpeper, Virginia's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 of Culpeper, Virginia as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of July 1, 2002.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Town Council
Culpeper, Virginia 22701
(Independent Auditor's Report)
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Culpeper, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

October 29, 2004

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, 2004. 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 vii of this report.

Financial Highlights

- Total assets of the Town exceeded total liabilities by \$39.3 million, for the year ended June 30, 2004.
- During FY2004, the total net assets of the Town increased by \$3.1 million. This change is mainly due to increased revenue from significant residential development. The increase in net assets resulted from significant increase in the water and sewer tap fees (49%) over the prior year and one and one half percent increase in the Water and Wastewater rates for water usage.
- The general governmental fund reported an ending fund balance of \$4.6 million, a decrease of \$136,000 in comparison with the prior year. All of the ending fund balance is unreserved and available at the Town's discretion, and represents 39% of the governmental fund's total annual expenditures in FY2004.
- Total debt increased by \$6.5 million (62%), during the current fiscal year. The increase is the combination of issuance of new debt less payments on existing debt. The new debt was obtained to purchase the new municipal building (\$2.8 million), expansion and upgrade of the electric facilities (\$1.5 million) and upgrade to the wastewater treatment plant (\$3.0 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise of 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 themselves.

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.

Statement of net assets - 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.

Statement of activities - The statement of activities presents how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when 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 result in cash flows in future fiscal periods (e. g., taxes uncollected and vacation earned but unused).

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 of the Town include general government, public safety, public works, community development, and parks, recreation and cultural. The business-type activities of the Town are the water, wastewater and electric funds.

The government-wide financial statements can be found on pages 10 through 11 of this report.

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 spend able resources, as well as on balances of spend able 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 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.

The basic governmental fund financial statements can be found on pages 12 through 18 of this report.

Proprietary Funds - The Town maintains three proprietary funds: water, wastewater and electric funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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. The notes to the financial statements can be found on pages 21 through 37 of this report.

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. Required supplementary information can be found on page 39 of this report.

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 \$39,370,641, at the end of FY2004.

The largest portion of the Town's net assets (55%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town's investment in its capital assets is reported net of related outstanding debt. The capital assets themselves cannot be used to liquidate these liabilities because these assets provide services to citizens. Therefore, it should be noted that the resources needed to repay this debt must be provided from other sources.

Statements of Net Assets

	Governmental	FY2004 Business-type		FY2003
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Total</u>
Current and other assets	\$6,590,752	\$14,943,945	\$21,534,697	\$16,418,425
Capital assets	<u>11,117,963</u>	<u>27,477,511</u>	<u>38,595,474</u>	<u>32,302,843</u>
Total assets	<u>\$17,708,715</u>	<u>\$42,421,456</u>	<u>\$60,130,171</u>	<u>\$48,721,268</u>
Long-term liabilities outstanding	\$4,883,784	\$12,740,188	\$17,623,972	\$10,459,687
Other liabilities	<u>1,669,584</u>	<u>1,465,974</u>	<u>3,135,558</u>	<u>2,026,452</u>
Total liabilities	<u>\$6,553,368</u>	<u>\$14,206,162</u>	<u>\$20,759,530</u>	<u>\$12,486,139</u>
Net assets (capital assets, net of related debt)	\$6,638,532	\$14,961,765	\$21,600,297	\$21,843,156
Restricted	-	-	-	-
Unrestricted	<u>4,516,815</u>	<u>13,253,529</u>	<u>17,770,344</u>	<u>14,391,793</u>
Total net assets	<u>\$11,155,347</u>	<u>\$28,215,294</u>	<u>\$39,370,641</u>	<u>\$36,235,129</u>
Total liabilities and net assets	<u>\$17,708,715</u>	<u>\$42,421,456</u>	<u>\$60,130,171</u>	<u>\$48,721,268</u>

Unrestricted net assets (\$17,770,344) may be used to meet the government's ongoing obligations to citizens and creditors (See underlined note above).

At the end of FY2004, the Town reported positive balances in all active categories of net assets, both for government-wide, and for its separate governmental and business-type activities. This is true for the prior fiscal year, as well.

During the current fiscal year, the government's net assets increased by \$3,135,512. Specific changes by activity type are discussed below.

Governmental activities - Governmental activities increased the Town's net assets by \$624,874, thereby accounting for 20% of the total growth in the net assets. While the Town did have a growth in net assets, it experienced a decrease in property taxes and a reduction in its bank franchise tax collections due to changes in the legislature regarding the deductibility of goodwill. Key elements of the governmental activities are as follows:

- The fund balance decreased \$135,658.
- Although assessments of real property increased substantially (40%), property taxes decreased due to a reduction in the overall tax rate.
- Bank franchise tax collections decreased due to changes in the law regarding the deductibility of goodwill.
- The capital outlays exceeded depreciation by \$3,280,028 in FY2004. Governmental funds report capital outlays as expenditures; however, the cost of those assets in the Statement of Activities is allocated over their estimated useful lives as depreciation expense.
- Many capital projects were incomplete as of June 30, 2004 and were subsequently re-appropriated in FY2005.

As of June 30, 2004, the Town's governmental funds reported combined ending fund balance of \$4,900,797, a decrease of \$24,842 from the prior year. The entire ending fund balance is unreserved and available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. At the end of the FY2004, the unreserved fund balance of the general fund was \$4,672,065. As a measure of the general fund's liquidity, it is useful to compare the unreserved fund balance to the total fund expenditures. The unreserved fund balance represents 39% of total general fund expenditures.

Business-type Activities - Business-type activities increased the Town's net assets by \$2,510,638. The three business-type activities reported operating results and net assets as follows:

	<u>Operating Income (Loss)</u>	<u>Net Assets Increase (Decrease)</u>
		\$ 1,868,970
Water	\$ 24,541	
Wastewater	(826,423)	1,503,869
Electric	<u>(772,856)</u>	(862,201)
Total	<u>\$ (1,574,738)</u>	<u>\$ 2,510,638</u>

Both the wastewater and electric funds experienced net operating losses for the year ended, June 30, 2004. Residential development continues to be a driving influence in the local economy and due to the substantial amount of tap fee revenue, both the water and the wastewater funds experienced a positive change in net assets.

Comparison of Proprietary Funds - June 30, 2004 vs. June 30, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Total</u>
Total operating revenues FY2004	\$ 1,819,092	\$ 1,817,490	\$ 5,680,003	\$ 9,316,585
Total operating revenues FY2003	<u>1,618,177</u>	<u>1,651,959</u>	<u>5,317,084</u>	<u>8,587,220</u>
Increase in operating revenues	<u>\$ 200,915</u>	<u>\$ 165,531</u>	<u>\$ 362,919</u>	<u>\$ 729,365</u>
Change in operating expenses – FY2003 to FY2004				\$ 286,493
Salaries and fringe benefits	\$ 13,460	\$ 54,314	218,719	
Operations and maintenance	2,690	(57,340)	1	(54,649)
Contractual Services	14,703	(26,653)	245,457	233,507
Repairs and maintenance	82,112	88,282	225,578	395,972
Other	28,350	46,078	862,268	936,696
Depreciation and amortization	<u>(53,998)</u>	<u>(34,024)</u>	<u>(116,402)</u>	<u>(204,424)</u>
Increase in operating expenses	<u>\$ 87,317</u>	<u>\$ 70,657</u>	<u>\$ 1,435,621</u>	<u>\$ 1,593,595</u>
Increase (decrease) in operating income	<u>\$ 24,541</u>	<u>\$ (826,423)</u>	<u>\$ (772,856)</u>	<u>\$ (1,574,738)</u>
Increase in tap fees	<u>\$ 823,040</u>	<u>\$ 624,094</u>	<u>\$ -</u>	<u>\$ 1,447,134</u>
Increase (decrease) in interest income/expense	<u>\$ 127,718</u>	<u>\$ (29,325)</u>	<u>\$ (96,991)</u>	<u>\$ 1,402</u>
Increase (decrease) in net assets	<u>\$ 1,868,970</u>	<u>\$ 1,503,869</u>	<u>\$ (862,201)</u>	<u>\$ 2,510,638</u>

The comparison above reveals the following:

- Operating revenues for all proprietary funds increased, mainly due to an increase in customers.
- Operating expenses increased in all proprietary funds and substantially in the electric fund. This can be attributed to an increase in power purchases, contractual services and repairs/maintenance costs.
- Operating incomes reduced in all proprietary funds (operating losses increased).
- Water and wastewater funds reported a positive change in net assets due to increased tap fees.

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances spend able resources- such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water, wastewater and electric departments at the end of the year amounted to \$13,253,529. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original revenue budget and the final amended budget differed \$16,908, as an increase in appropriations. The original budget for expenditures and the final amended budget were altered significantly (\$1,068,320 increase in appropriation). These differences can be briefly summarized as follows:

- Capital projects approved during the budget year, not included in the original budget.
- FY2004 budget amended for projects unfinished and carried forward from FY2003.

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, 2004, amounts to \$38,595,474 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. Additional information on the Town's capital assets can be found in Note 7 on page 31 of this report.

Capital Assets – Net of Depreciation

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 1,104,303	\$ 1,340,732	\$ 2,445,035
Buildings and Improvements	4,426,218	11,633,965	16,060,183
Other Improvements	4,524,714	13,132,471	17,657,185
Machinery and Equipment	<u>1,062,728</u>	<u>1,370,343</u>	<u>2,433,071</u>
Total	<u>\$ 11,117,963</u>	<u>\$ 27,477,511</u>	<u>\$ 38,595,474</u>

Long-term debt – At the end of the current fiscal year, the Town’s bonded debt outstanding totaled \$16,995,179 (net of loss on refunding). All of the Town’s debt is backed by the full faith and credit of the government.

	Total Outstanding Debt		
	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 4,479,431	\$ 12,432,335	\$ 16,911,766
Capital Leases	-	83,413	83,413
Total	<u>\$ 4,479,431</u>	<u>\$ 12,515,748</u>	<u>\$ 16,995,179</u>

The Town's total debt increased \$6,535,492 in FY2004. The Town met all of its debt obligations in a timely manner and financed upgrades and improvements to its wastewater plant, expansion and upgrade to its electricity generation facility, and purchase of a new municipal building. Additional information on the Town's long-term debt can be found in Note 9 on pages 32 through 35 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Culpeper County, VA, as of June 30, 2004, increased slightly from the annual rate of a year ago by three-tenths of a percent. The County’s unemployment rate compares favorably to the state's average unemployment rate and the national average rate.
- The occupancy rate of the Town's central business district continues to improve.
- Residential growth continues at historical rates.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town's FY2005 budget.

During FY2004, although the unreserved fund balance in the general fund decreased \$136,000, the general fund remains strong with an ending fund balance of \$4.6 million. This unreserved fund balance will be used for future needs of the Town.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF NET ASSETS
 JUNE 30, 2004

EXHIBIT 1

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority	Parking Authority
ASSETS					
Cash and cash equivalents (Note 2)	\$ 2,821,905	\$ 3,578,453	\$ 6,400,358	\$ 4,428	\$ 47,227
Restricted cash	1,133,260	9,323,964	10,457,224	-	-
Investments (Note 3)	1,514,998	-	1,514,998	112,773	-
Receivable, net (Note 5)	415,778	1,084,451	1,500,229	-	1,888
Due from other governmental units (Note 6)	463,811	-	463,811	-	-
Inventories	-	904,502	904,502	-	-
Loans receivable	241,000	-	241,000	-	-
Deferred bond expense	-	52,575	52,575	-	-
Capital assets, net (Note 7)	<u>11,117,963</u>	<u>27,477,511</u>	<u>38,595,474</u>	<u>-</u>	<u>-</u>
 Total Assets	 <u>\$ 17,708,715</u>	 <u>\$ 42,421,456</u>	 <u>\$ 60,130,171</u>	 <u>\$ 117,201</u>	 <u>\$ 49,115</u>
 LIABILITIES					
Accounts payable and accrued liabilities	\$ 547,019	\$ 752,316	\$ 1,299,335	\$ -	\$ -
Accrued payroll and related liabilities	86,579	39,872	126,451	-	-
Accrued interest payable	53,070	123,684	176,754	-	-
Deferred revenue	10,814	-	10,814	-	-
Customer security deposits	-	530,677	530,677	-	-
Other liabilities	1,000,836	-	1,000,836	-	-
Compensated absences	375,619	243,867	619,486	-	-
Long-term liabilities (Note 9)					
Due within one year	376,465	933,766	1,310,231	-	-
Due in more than one year	<u>4,102,966</u>	<u>11,581,980</u>	<u>15,684,946</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>6,553,368</u>	 <u>14,206,162</u>	 <u>20,759,530</u>	 <u>-</u>	 <u>-</u>
 NET ASSETS					
Invested in capital assets, net of related debt	6,638,532	14,961,765	21,600,297	-	-
Restricted	-	-	-	-	-
Unrestricted	<u>4,516,815</u>	<u>13,253,529</u>	<u>17,770,344</u>	<u>117,201</u>	<u>49,115</u>
 Total Net Assets	 <u>\$ 11,155,347</u>	 <u>\$ 28,215,294</u>	 <u>\$ 39,370,641</u>	 <u>\$ 117,201</u>	 <u>\$ 49,115</u>

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Authority	Parking Authority
					Governmental Activities	Business-Type Activities	Total		
Governmental Activities:									
General government	\$ 1,328,023	\$ -	\$ -	\$ -	\$ (1,328,023)	\$ -	\$ (1,328,023)	\$ -	\$ -
Public safety	2,413,865	186,078	244,532	-	(1,983,255)	-	(1,983,255)	-	-
Public works	2,538,465	381,891	939,770	-	(1,216,804)	-	(1,216,804)	-	-
Health and welfare	7,393	-	-	-	(7,393)	-	(7,393)	-	-
Parks, recreation and cultural	375,991	80,695	5,000	-	(290,296)	-	(290,296)	-	-
Community development	1,182,208	7,590	-	316,876	(857,742)	-	(857,742)	-	-
Interest on long-term debt	174,326	-	-	-	(174,326)	-	(174,326)	-	-
Contingencies	-	-	-	-	-	-	-	-	-
Total Governmental Activities	<u>8,020,271</u>	<u>656,254</u>	<u>1,189,302</u>	<u>316,876</u>	<u>(5,857,839)</u>	<u>-</u>	<u>(5,857,839)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:									
Water	2,028,677	3,850,694	-	-	-	1,822,017	1,822,017	-	-
Wastewater	2,714,261	4,171,184	-	-	-	1,456,923	1,456,923	-	-
Electric	6,574,306	5,680,003	-	-	-	(894,303)	(894,303)	-	-
Total Business-Type Activities	<u>11,317,244</u>	<u>13,701,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,384,637</u>	<u>2,384,637</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>19,337,515</u>	<u>14,358,135</u>	<u>1,189,302</u>	<u>316,876</u>	<u>(5,857,839)</u>	<u>2,384,637</u>	<u>(3,473,202)</u>	<u>-</u>	<u>-</u>
COMPONENT UNITS:									
Industrial Development Authority	37,145	38,370	-	-	-	-	-	1,225	-
Parking Authority	78,036	50,868	-	-	-	-	-	-	(27,168)
Total Component Units	<u>115,181</u>	<u>89,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,225</u>	<u>(27,168)</u>
General Revenues:									
Property taxes					1,345,690	-	1,345,690	-	-
Other local taxes					3,952,464	-	3,952,464	-	-
Unrestricted intergovernmental revenue					287,735	-	287,735	-	-
Unrestricted investment earnings					112,541	126,001	238,542	1,243	-
Rental of Town property					168,218	-	168,218	-	-
Gain on sale of capital assets					14,706	-	14,706	-	-
Other					601,359	-	601,359	-	-
Total general revenues and transfers					<u>6,482,713</u>	<u>126,001</u>	<u>6,608,714</u>	<u>1,243</u>	<u>-</u>
Change in net assets					624,874	2,510,638	3,135,512	2,468	(27,168)
NET ASSETS - JULY 1					<u>10,530,473</u>	<u>25,704,656</u>	<u>36,235,129</u>	<u>114,733</u>	<u>76,283</u>
NET ASSETS - JUNE 30					<u>\$ 11,155,347</u>	<u>\$ 28,215,294</u>	<u>\$ 39,370,641</u>	<u>\$ 117,201</u>	<u>\$ 49,115</u>

TOWN OF CULPEPER, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2004

EXHIBIT 3

	<u>General Fund</u>	<u>Permanent Fund Cemetery Perpetual Care</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,687,272	\$ 134,633	\$ 2,821,905
Restricted cash	1,133,260	-	1,133,260
Investments	1,421,547	93,451	1,514,998
Taxes receivable	48,734	-	48,734
Accounts receivable	212,782	-	212,782
Other receivables	153,614	648	154,262
Due from other governmental units	463,811	-	463,811
Business rehabilitation loans receivable	241,000	-	241,000
Total Assets	<u>\$ 6,362,020</u>	<u>\$ 228,732</u>	<u>\$ 6,590,752</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 547,020	\$ -	\$ 547,020
Accrued payroll and related liabilities	86,579	-	86,579
Deferred revenue	55,520	-	55,520
Other liabilities	1,000,836	-	1,000,836
Total Liabilities	<u>1,689,955</u>	<u>-</u>	<u>1,689,955</u>
FUND BALANCES			
Reserved for	-	-	-
Unreserved:			
Designated	-	-	-
Undesignated	4,672,065	228,732	4,900,797
Total Fund Balances	<u>4,672,065</u>	<u>228,732</u>	<u>4,900,797</u>
Total Liabilities and Fund Balances	<u>\$ 6,362,020</u>	<u>\$ 228,732</u>	<u>\$ 6,590,752</u>
Total Fund Balances	\$ 4,900,797		
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	11,117,963		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	44,707		
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds	(53,070)		
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(4,855,050)</u>		
Net Assets of Governmental Activities	<u>\$ 11,155,347</u>		

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

EXHIBIT 4

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
REVENUES			
General property taxes	\$ 1,352,454	\$ -	\$ 1,352,454
Other local taxes	3,952,464	-	3,952,464
Permits, privilege fees and regulatory licenses	312,347	-	312,347
Fines and forfeitures	186,078	-	186,078
Revenues from use of money and property	275,835	4,924	280,759
Charges for services	157,829	-	157,829
Other	495,467	105,892	601,359
Recovered costs	622,077	-	622,077
Non-categorical aid	34,430	-	34,430
Categorical aid	1,759,482	-	1,759,482
Total Revenues	9,148,463	110,816	9,259,279
EXPENDITURES			
Current:			
General government administration	1,620,458	-	1,620,458
Public safety	2,518,589	-	2,518,589
Public works	2,197,942	-	2,197,942
Health and welfare	7,393	-	7,393
Parks, recreation and cultural	361,605	-	361,605
Community development	769,056	-	769,056
Capital projects	4,232,816	-	4,232,816
Debt service:			
Principal retirement	263,790	-	263,790
Interest and fiscal charges	127,178	-	127,178
Total Expenditures	12,098,827	-	12,098,827
Excess of Revenues Over Expenditures	(2,950,364)	110,816	(2,839,548)
OTHER FINANCING SOURCES			
Sale of general fixed assets	14,706	-	14,706
Proceeds of general obligation bonds	2,800,000	-	2,800,000
Total Other Financing Sources and Uses	2,814,706	-	2,814,706
Net Change in Fund Balance	(135,658)	110,816	(24,842)
FUND BALANCE AT JULY 1	4,807,723	117,916	4,925,639
FUND BALANCE AT JUNE 30	\$ 4,672,065	\$ 228,732	\$ 4,900,797

TOWN OF CULPEPER, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

EXHIBIT 5

	<u>General Fund</u>
Net Change in Fund Balance Governmental Fund:	\$ (24,842)
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 is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,280,028
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,764)
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. This is the amount by which proceeds exceeded repayments.	(2,536,210)
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not required as expenditures in governmental funds.	<u>(87,338)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 624,874</u></u>

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL -
GENERAL FUND (NON-GAAP BUDGETARY BASIS)
For the Year Ended June 30, 2004

EXHIBIT 6

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
General property taxes	\$ 1,346,101	\$ 1,346,101	\$ 1,352,454	\$ 6,353
Other local taxes	3,659,400	3,659,400	3,952,464	293,064
Permits, privilege fees and regulatory licenses	165,510	165,510	312,347	146,837
Fines and forfeitures	167,500	167,500	186,078	18,578
Revenues from use of money and property	395,330	395,330	275,835	(119,495)
Charges for services	154,500	154,500	157,829	3,329
Other	354,100	371,008	495,467	124,459
Recovered costs	622,077	622,077	622,077	-
Non-categorical aid	21,050	21,050	34,430	13,380
Categorical aid	2,504,100	2,504,100	1,759,482	(744,618)
Total Revenues	9,389,668	9,406,576	9,148,463	(258,113)
EXPENDITURES				
General government administration	1,714,854	1,745,119	1,620,458	124,661
Public safety	2,628,638	2,629,238	2,518,589	110,649
Public works	2,212,847	2,291,012	2,197,942	93,070
Health and welfare	-	-	7,393	(7,393)
Parks, recreation and cultural	385,698	407,749	361,605	46,144
Community development	846,535	863,409	769,056	94,353
Capital project	5,891,472	6,811,837	4,232,816	2,579,021
Debt service				
Principal retirement	263,790	263,790	263,790	-
Interest and fiscal charges	191,349	191,349	127,178	64,171
Contingencies	7,587	7,587	-	7,587
Total Expenditures	14,142,770	15,211,090	12,098,827	3,112,263
OTHER FINANCING SOURCES (USES)				
Sale of general fixed assets	5,100	5,100	14,706	9,606
Proceeds of general obligation bonds	2,672,500	2,672,500	2,800,000	127,500
Total Other Sources of Financial Resources	2,677,600	2,677,600	2,814,706	137,106
Net Increase (Decrease) in Fund Balances	\$ (2,075,502)	\$ (3,126,914)	\$ (135,658)	\$ 2,991,256

TOWN OF CULPEPER, VIRGINIA
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2004

EXHIBIT 7

	Business-type Activities-			Totals
	Enterprise Funds			
	Water Fund	Wastewater Fund	Electric Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 435,646	\$ 377,439	\$ 2,765,368	\$ 3,578,453
Receivables, net	202,851	196,675	684,925	1,084,451
Inventories	<u>58,895</u>	<u>54,191</u>	<u>791,416</u>	<u>904,502</u>
Total Current Assets	<u>697,392</u>	<u>628,305</u>	<u>4,241,709</u>	<u>5,567,406</u>
Noncurrent assets:				
Deferred bond and loan expense	28,738	7,789	16,048	52,575
Restricted cash	4,186,708	5,137,256	-	9,323,964
Capital assets, net	<u>9,796,799</u>	<u>11,348,227</u>	<u>6,332,485</u>	<u>27,477,511</u>
Total Noncurrent Assets	<u>14,012,245</u>	<u>16,493,272</u>	<u>6,348,533</u>	<u>36,854,050</u>
 Total Assets	 <u>\$ 14,709,637</u>	 <u>\$ 17,121,577</u>	 <u>\$ 10,590,242</u>	 <u>\$ 42,421,456</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	7,533	249,519	495,264	752,316
Accrued payroll and related liabilities	8,323	15,934	15,615	39,872
Accrued interest payable	67,393	24,787	31,504	123,684
Customer deposits	117,810	-	412,867	530,677
Capital lease payable	-	-	19,425	19,425
General obligation bonds	<u>470,230</u>	<u>246,282</u>	<u>197,829</u>	<u>914,341</u>
Total Current Liabilities	<u>671,289</u>	<u>536,522</u>	<u>1,172,504</u>	<u>2,380,315</u>
Noncurrent liabilities				
Due to other funds	-	-	-	-
Capital lease payable	-	-	63,988	63,988
General obligation bonds	5,376,708	4,205,260	1,936,024	11,517,992
Compensated absences	<u>68,647</u>	<u>86,435</u>	<u>88,785</u>	<u>243,867</u>
Total Noncurrent Liabilities	<u>5,445,355</u>	<u>4,291,695</u>	<u>2,088,797</u>	<u>11,825,847</u>
 Total Liabilities	 <u>6,116,644</u>	 <u>4,828,217</u>	 <u>3,261,301</u>	 <u>14,206,162</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,949,861	6,896,685	4,115,219	14,961,765
Unrestricted	<u>4,643,132</u>	<u>5,396,675</u>	<u>3,213,722</u>	<u>13,253,529</u>
Total Net Assets	<u>8,592,993</u>	<u>12,293,360</u>	<u>7,328,941</u>	<u>28,215,294</u>
 Total Liabilities and Net Assets	 <u>\$ 14,709,637</u>	 <u>\$ 17,121,577</u>	 <u>\$ 10,590,242</u>	 <u>\$ 42,421,456</u>

TOWN OF CULPEPER, VIRGINIA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND

For the Year Ended June 30, 2004

Business-type Activities-

Enterprise Funds

OPERATING REVENUES	Enterprise Funds			Totals
	Water	Wastewater	Electric	
Charges for services	\$ 1,801,347	\$ 1,798,485	\$ 5,639,004	\$ 9,238,836
Penalties	14,729	14,729	14,729	44,187
Other charges	3,016	4,276	26,270	33,562
Total Operating Revenues	<u>1,819,092</u>	<u>1,817,490</u>	<u>5,680,003</u>	<u>9,316,585</u>
OPERATING EXPENSES				
Salaries	451,645	729,633	819,801	2,001,079
Fringe benefits	127,760	200,875	202,079	530,714
Internal services	318,764	329,652	200,655	849,071
Operation and maintenance	8,217	73,026	2,873	84,116
Contractual services	109,167	24,801	324,469	458,437
Insurance	30,521	39,504	32,190	102,215
Materials and supplies	11,185	13,402	18,422	43,009
Repairs and maintenance	250,923	299,905	316,275	867,103
Purchase of natural gas and oil	-	-	68,229	68,229
Purchase of electricity	-	-	3,667,967	3,667,967
Other	28,209	53,107	286,501	367,817
Depreciation and amortization	458,160	880,008	513,398	1,851,566
Total Operating Expenses	<u>1,794,551</u>	<u>2,643,913</u>	<u>6,452,859</u>	<u>10,891,323</u>
Operating Income	<u>24,541</u>	<u>(826,423)</u>	<u>(772,856)</u>	<u>(1,574,738)</u>
NONOPERATING REVENUE (EXPENSE)				
Tap fees	2,031,602	2,353,694	-	4,385,296
Interest income	46,953	46,946	32,102	126,001
Interest expense	(234,126)	(70,348)	(121,447)	(425,921)
Net Nonoperating Income	<u>1,844,429</u>	<u>2,330,292</u>	<u>(89,345)</u>	<u>4,085,376</u>
Change in Net Assets	1,868,970	1,503,869	(862,201)	2,510,638
Total Net Assets at July 1	<u>6,724,023</u>	<u>10,789,491</u>	<u>8,191,142</u>	<u>25,704,656</u>
Total Net Assets at June 30	<u>\$ 8,592,993</u>	<u>\$ 12,293,360</u>	<u>\$ 7,328,941</u>	<u>\$ 28,215,294</u>

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
Year Ended June 30, 2004

EXHIBIT 9

	Business-type Activities- Enterprise Funds			
	Water Fund	Wastewater Fund	Electric Fund	Totals
OPERATING ACTIVITIES				
Receipts from customers	\$ 1,798,586	\$ 1,805,981	\$ 5,595,610	\$ 9,200,177
Payments to suppliers	(750,463)	(618,241)	(4,752,508)	(6,121,212)
Payments to employees	(568,822)	(900,804)	(999,158)	(2,468,784)
Receipts of customer deposits	20,458	-	78,030	98,488
Net Cash Provided by (Used in) Operating Activities	499,759	286,936	(78,026)	708,669
CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(273,120)	(2,985,335)	(1,605,713)	(4,864,168)
Proceeds from general obligation bonds & notes	-	3,064,694	1,606,800	4,671,494
Principal paid on long-term liabilities	(482,870)	(87,053)	(147,015)	(716,938)
Interest on loan	(207,515)	(53,374)	(84,306)	(345,195)
Tap fees collected	2,031,602	2,353,694	-	4,385,296
Net Cash Provided by (Used in) Capital and Related Financing Activities	1,068,097	2,292,626	(230,234)	3,130,489
INVESTING ACTIVITIES				
Interest received on investments	39,210	39,475	32,102	110,787
Net Cash Provided by Investing Activities	39,210	39,475	32,102	110,787
Net Increase in Cash and Cash Equivalents	1,607,066	2,619,037	(276,158)	3,949,945
CASH AND CASH EQUIVALENTS				
Beginning at July 1	3,015,288	2,895,658	3,041,526	8,952,472
Ending at June 30	\$ 4,622,354	\$ 5,514,695	\$ 2,765,368	\$ 12,902,417
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:				
Operating loss	24,541	(826,423)	(772,856)	(1,574,738)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	458,160	880,008	513,398	1,851,566
Change in certain assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(20,507)	(11,509)	(84,393)	(116,409)
Inventories	(819)	(17,145)	24,306	6,342
Increase in:				
Accounts payable and accrued liabilities	17,926	262,005	163,489	443,420
Customer deposits	20,458	-	78,030	98,488
Net Cash Provided by Operating Activities	\$ 499,759	\$ 286,936	\$ (78,026)	\$ 708,669
Noncash Investing, Capital and Financing Activities:				
Supplemental Disclosure of Capital and Related Financing Activities:				
Deferred refunding loss charge as component of interest expense	\$ 30,466	\$ 5,505	\$ 8,753	\$ 44,724

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

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2004

EXHIBIT 10

	<u>Industrial Development Authority</u>	<u>Parking Authority</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (Note 2)	\$ 4,428	\$ 47,227	\$ 51,655
Investments (Note 3)	112,773	-	112,773
Receivable, net	<u>-</u>	<u>1,888</u>	<u>1,888</u>
Total Assets	<u>\$ 117,201</u>	<u>\$ 49,115</u>	<u>\$ 166,316</u>
 NET ASSETS			
Unrestricted	<u>\$ 117,201</u>	<u>\$ 49,115</u>	<u>\$ 166,316</u>
Total Net Assets	<u>\$ 117,201</u>	<u>\$ 49,115</u>	<u>\$ 166,316</u>

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended June 30, 2004

EXHIBIT 11

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Industrial Development Authority	Parking Authority	Totals
Industrial Development Authority	\$ 37,145	\$ 38,370	\$ -	\$ -	\$ 1,225	\$ -	\$ 1,225
Parking Authority	78,036	50,868	-	-	-	(27,168)	(27,168)
Total Component Units	115,181	89,238	-	-	1,225	(27,168)	(25,943)
General revenues							
					1,243	-	1,243
					-	-	-
					1,243	-	1,243
					2,468	(27,168)	(24,700)
					114,733	76,283	191,016
					NET ASSETS - JULY 1		
					NET ASSETS - JUNE 30	\$ 49,115	\$ 166,316
					\$ 117,201	\$ 49,115	\$ 166,316

TOWN OF CULPEPER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Culpeper, Virginia, was established in 1904. The Town provides a full range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, 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 powers subject to statewide restrictions and tax limits.

The financial statements of the Town of Culpeper 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). The following is a summary of the Town's more significant policies.

(a) The Financial Reporting Entity

As required by GAAP, these financial statements present the Town (the Primary Government) and its component units. As such, the Industrial Development Authority and the Culpeper Parking Authority are reported as separate and discretely presented component units in the Town's reporting entity. The Primary Government is hereafter referred to as the "Town" and the reporting entity, which includes the Town and its component units, is hereafter referred to as the "Town Reporting Entity".

As required by GAAP, the accompanying financial statements include all activities of the Town, such as general operations and support services. The component units discussed below are included in the Town Reporting Entity because the Town appoints a majority of the board members, approves the budgetary request and provides a significant amount of funding for each of these entities.

Discretely Presented Component Units

The component unit columns in the government-wide financial statements include the financial data of the Town's two component units. Each is presented in a separate column to emphasize that these units are legally separate from the Town and each represents a functionally independent operation. These component units are fiscally dependent on the Town and provide services primarily to the citizens of Culpeper. A description of the discretely presented component units follows:

- (i) 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.
- (ii) The Parking Authority manages the parking facilities for the Town.

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

(notes continued on next page)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial Reporting Model

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB 34)*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. The Town has implemented the requirements of GASB 34, beginning with the year ended June 30, 2004.

GASB 34 established requirements and the new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes the following components:

Management's Discussion and Analysis - GAAP requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is comparable to analysis the private sector provides in their annual reports.

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities (i.e., reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter). Government-wide financial statements do not provide information by fund or account group, but distinguish between the Town's governmental activities, business-type activities and activities of its discretely presented component units on the Statement of Net Assets and Statement of Activities. Significantly, the Town's Statement of Net Assets includes both noncurrent assets and noncurrent liabilities of the Town. Depreciation expense on the Town's capital assets, including infrastructure, is reflected in the government-wide Statement of Activities.

Statement of Net Assets — The Statement of Net Assets is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. The Town reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets and reports depreciation expense — the cost of "using up" capital assets — in the Statement of Activities. The net assets of the Town are reported in three categories — 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the Town's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by specific 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. All taxes, and other items not properly included among program revenues, are reported instead as general revenues.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, health and welfare, etc.) which are not otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function (public safety, health and welfare, etc.) or a business-type activity.

(notes continued on the next page)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Statements - In addition to the government-wide financial statements, the Town reports fund financial statements which use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the Town's Governmental fund types (i.e., General, and Permanent) are similar to that previously presented in the Town's financial statements. See note 1(c) for further discussion.

(c) Measurement Focus, Basis of Accounting, and Basis of Presentation

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Governmental fund financial statements are reported using the current financial resource 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Reporting Entity considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the Town's electric, water and wastewater functions 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.

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

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the Town.

(notes continued on the next page)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Licenses and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Unbilled accounts receivable are recorded in the Enterprise Funds when earned.

The governmental funds financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets (deficit) for governmental activities as shown on the government-wide Statement of Net Assets is presented in a schedule accompanying the governmental funds balance sheet. The assets and liability elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances, and the change in net assets for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds statement of revenues, expenditures and changes in fund balances. The revenue and expense elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

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

The focus of the Reporting Model is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and all of the individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town reports the following proprietary fund types, all of which are considered major funds:

The *Water Fund* accounts for the operations of the Town's water distribution system.

The *Wastewater Fund* accounts for the operations of the Town's wastewater collection system.

The *Electric Fund* accounts for the operations of the Town's light and power system.

GASB Statement No. 20 requires proprietary activities to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB No. 20, management has elected not to apply FASB pronouncement issues after November 30, 1989.

Additionally, the Town reports the following fund types and individual non-major funds:

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

(d) Budgets and Budgetary Accounting

The following procedures are used by the Town in establishing 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 the following July 1. This budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain citizen comments.

The Appropriations Ordinance places legal restrictions on expenditures at the department or function level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each department or function can be revised only by Town Council. The Town Manager is authorized to transfer budget amounts within departments up to \$2,500.

- (1) Formal budgetary integration is employed as a management control device during the year for the general and enterprise funds.
- (2) Budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP"), except that encumbrances are recognized as expenditures for budgetary purposes for the general fund.
- (3) Appropriations lapse on June 30.
- (4) All budget data presented in the accompanying financial statements are revised as of June 30.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Encumbrances

Encumbrance accounting is employed in the General Fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities.

(f) Cash, and Cash Equivalents and Trust Fund Investments

Cash and cash equivalents are stated at amortized cost. Cash and cash equivalents include savings accounts, certificates of deposit and repurchase agreements, which generally have maturities of less than three months at the time of acquisition.

(g) Accounts Receivable and Payable

The Town calculates its allowances for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to \$40,348 at June 30, 2004.

(h) Inventory of Supplies

Inventories are valued at lower of cost (first-in, first-out) or market method. Inventories consist of supplies for the public utility systems of the Town and are recorded as expenditures/expenses when consumed rather than when purchased.

(i) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets and bridges) 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 \$5,000 or more and an estimated useful life of at least two years. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/building improvements	40-50
Streets and bridges	30-50
Utility transmission lines and mains	20-40
Furniture and equipment	10
Vehicles	5-7

(j) Fund Equity

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

(notes continued on next page)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Defined Benefit Pension Plans

Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of past service costs over a 10-year period for the Virginia Retirement System (VRS) Plans. The Town's policy is to fund pension cost as it accrues.

NOTE 2 – CASH AND CASH EQUIVALENTS

Deposits

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

Investments

The Town's investment portfolio is stated at fair value. The June 30, 2004, fair value information presented below is based on quotes as of that date. It is presented to reflect the fair value of the portfolio as if the Town were to liquidate the securities on that date. Investments in the Local Government Investment Pool (LGIP) are considered by the Town to be cash equivalents for balance sheet classification.

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

The Local Government Investment Pool is duly chartered and administered by the Commonwealth's Treasurer's Office, and the portfolio consists of U. S. Treasury bills and notes, collateralized certificates of deposit, and repurchase agreements. GASB Statement No. 3 requires the Town to assign risk categories for its investments, except those in which securities are not used as evidence of the investment. LGIP investments have not been assigned a risk category since the Town is not issued securities, but rather it owns an undivided beneficial interest in the assets of these investment programs.

The Town's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its safekeeping agent in the Town's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer's bank trust department or safekeeping agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Town's name.

NOTE 5 – RECEIVABLES

Receivables as of year end consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Receivables:			
Taxes	\$ 89,082	\$ 0	\$ 89,082
Accounts	<u>367,044</u>	<u>1,084,451</u>	<u>1,451,495</u>
Gross receivables	456,126	1,084,451	1,540,577
Allowance for uncollectibles	<u>(40,348)</u>	<u>0</u>	<u>(40,348)</u>
Receivables, net	<u>\$415,778</u>	<u>\$1,084,451</u>	<u>\$1,500,229</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue and unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Included in receivables:			
Delinquent property taxes receivable	\$ <u>44,706</u>	\$ <u>0</u>	\$ <u>44,706</u>
	<u>44,706</u>	<u>0</u>	<u>44,706</u>
Included in cash:			
Subsequent years tax collections	<u>-</u>	<u>10,814</u>	<u>10,814</u>
Total Deferred/Unearned Revenue For Governmental Funds	<u>\$ 44,706</u>	<u>\$ 10,814</u>	<u>\$ 55,520</u>

NOTE 6 – DUE FROM OTHER GOVERNMENTAL UNITS

A summary of funds due from other governmental units follows:

Commonwealth of Virginia:	
Highway maintenance fund	\$ 230,673
ABC tax	<u>8,529</u>
Total Commonwealth of Virginia	<u>239,202</u>
County of Culpeper:	
Local sales tax	214,286
Court fines	<u>10,323</u>
Total County of Culpeper	<u>224,609</u>
Total Due From Other Governmental Units	<u>\$463,811</u>

(notes continued on next page)

NOTE 7 - CHANGES IN FIXED ASSETS

The following is a summary of changes in fixed assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 848,737	\$ 255,566	\$ -	\$ 1,104,303
Total Capital Assets, not Depreciated	<u>848,737</u>	<u>255,566</u>	<u>-</u>	<u>1,104,303</u>
Capital assets, depreciated				
Buildings and improvements	2,094,259	2,813,698	-	4,907,957
Other improvements	9,368,297	489,814	-	9,858,111
Machinery and equipment	<u>1,973,902</u>	<u>501,811</u>	<u>(101,855)</u>	<u>2,373,858</u>
Total Capital Assets, Depreciated	<u>13,436,458</u>	<u>3,805,323</u>	<u>(101,855)</u>	<u>17,139,926</u>
Less accumulated depreciation for				
Buildings and improvements	367,397	114,342	-	481,739
Other improvements	4,927,269	406,128	-	5,333,397
Machinery and equipment	<u>1,152,593</u>	<u>260,392</u>	<u>(101,855)</u>	<u>1,311,130</u>
Total accumulated depreciation	<u>6,447,259</u>	<u>780,862</u>	<u>(101,855)</u>	<u>7,126,266</u>
Total Capital Assets, depreciated, net	<u>6,989,199</u>	<u>3,024,461</u>	<u>-</u>	<u>10,013,660</u>
Governmental activities capital assets, net	<u>7,837,936</u>	<u>3,280,027</u>	<u>-</u>	<u>11,117,963</u>
Business Type Activities				
Capital assets, not depreciated				
Land	<u>1,340,732</u>	-	-	<u>1,340,732</u>
Total Capital Assets, not Depreciated	<u>1,340,732</u>	<u>-</u>	<u>-</u>	<u>1,340,732</u>
Capital assets, depreciated				
Buildings	19,424,281	-	-	19,424,281
Improvements	26,024,416	906,751	-	26,931,167
Machinery and equipment	2,064,505	325,351	-	2,389,856
Construction in progress	<u>-</u>	<u>3,633,060</u>	<u>-</u>	<u>3,633,060</u>
Total Capital Assets, Depreciated	<u>47,513,202</u>	<u>4,865,162</u>	<u>-</u>	<u>52,378,364</u>
Less accumulated depreciation for				
Buildings	10,815,161	608,215	-	11,423,376
Improvements	12,689,404	1,109,292	-	13,798,696
Machinery and equipment	<u>884,462</u>	<u>135,051</u>	<u>-</u>	<u>1,019,513</u>
Total Accumulated Depreciation	<u>24,389,027</u>	<u>1,852,558</u>	<u>-</u>	<u>26,241,585</u>
Total Capital Assets, Depreciated, Net	<u>23,124,175</u>	<u>3,012,604</u>	<u>-</u>	<u>26,136,779</u>
Business-Type Activities Capital Assets, Net	<u>\$24,464,907</u>	<u>\$ 3,012,604</u>	<u>\$ -</u>	<u>\$27,477,511</u>

Construction in progress totaled \$3,633,060 at June 30, 2004. Estimated cost to complete these projects was \$1,710,000. Under business type activities, \$106,800 of current year additions to machinery and equipment were acquired by capital lease.

(notes continued on next page)

NOTE 9 – LONG-TERM DEBT (Continued)

Description of Long-term Debt

Proceeds of general obligation bonds are recorded in the fund to which they relate and are restricted to the use for which they were approved in the bond referendum. The Town Charter expressly prohibits the use of bond proceeds to fund operating expenses. New loan proceeds for year ended June 30, 2004 were used to upgrade electric and sewer fund facilities (\$4,564,694) and the acquisition and remodeling of the new Town Hall facility (\$2,800,000).

Long-term bond indebtedness payable at June 30, 2004, is comprised of the following individual issues:

	<u>Amount Outstanding</u>	
	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
General Obligation Bonds		
\$4,300,000 General Obligation Bonds payable to Patriot Bank, issued 2003, due annually with interest payable semi-annually at 3.76%. Final maturity on July 15, 2023.	\$ 1,500,000	\$ 2,800,000
\$554,139 Virginia Water Facility Revolving Fund administered by the Virginia Resource Authority, issued in 2002, 4% interest, principal and interest payable semi-annual payments of \$32,076 final maturity on August 1, 2022.	534,918	-
\$8,018,000 General Obligation Public Improvement Refunding Bonds payable to Bank of America, issued in 2002, due annually with interest payable semi-annually at 4.455%. Final maturity on April 1, 2018.	6,880,703	201,297
\$2,173,825 General Obligation Refunding Bond Payable to SunTrust Bank, issued in 2003, due annually with interest payable semi-annually at 2.29%. Final maturity on June 1, 2010.	372,981	1,478,134
\$4,103,552 Virginia Water Facility Revolving Fund administered by the Virginia Resource Authority, issued in 2003, 3.75% interest principal and interest payable in semi-annual payments of \$149,278. Final maturity on December 1, 2023.	3,573,258	-
Accounting loss on refundings	<u>(429,525)</u>	<u> </u>
Total General Obligation Bonds	<u>\$ 12,432,335</u>	<u>\$ 4,479,431</u>
Capital Lease Obligation		
Capital lease with Altec Capital Services for a boom truck to be utilized by the electrical department. Lease requires annual payments of \$23,387 per year for 5 years with the last payment due on July 1, 2008. Total principal payments required are \$106,800 and total interest payments are \$10,135.	<u>\$ 83,413</u>	<u>\$ -</u>
Total Capital Lease Obligation	<u>\$ 83,413</u>	<u>\$ -</u>
Total Long-Term Debt	<u>\$ 12,515,748</u>	<u>\$ 4,479,431</u>

(notes continued on next page)

NOTE 9 – LONG-TERM DEBT (Continued)

Amortization Requirements

The annual requirements to amortize all debt outstanding as of June 30, 2004 are as follows:

Years Ending June 30,	Business Type Activities						Governmental Activities	
	General Obligation Bonds						General Obligation Bonds	
	Water Fund		Wastewater Fund		Electric Fund		Principal	Interest
Principal	Interest	Principal	Interest	Principal	Interest			
2005	470,230	216,211	246,282	205,912	197,829	113,348	376,465	159,425
2006	490,909	196,117	254,988	196,060	203,838	105,019	388,500	148,072
2007	523,648	172,472	268,335	186,613	217,972	97,776	399,394	136,909
2008	532,643	152,203	272,789	175,410	215,880	87,765	406,722	124,437
2009	336,562	187,984	210,961	147,731	94,773	48,663	367,860	99,667
2010	355,734	173,039	218,591	139,957	97,596	45,570	375,890	89,522
2011	362,000	157,232	207,858	132,896	64,400	42,378	120,300	79,127
2012	379,000	141,267	215,790	123,961	66,800	39,912	124,800	74,519
2013	397,000	123,762	224,026	115,728	69,400	37,352	129,500	69,739
2014	419,000	105,830	232,575	107,178	72,000	34,694	134,400	64,777
2015	445,000	86,905	241,451	98,302	74,700	31,936	139,400	59,630
2016	466,000	66,988	250,667	89,086	77,500	29,074	144,700	54,289
2017	491,000	45,756	260,233	79,521	80,400	26,106	150,100	48,747
2018	522,000	23,578	270,166	69,588	83,400	23,026	155,800	42,996
2019	-	-	280,476	59,277	86,600	19,830	161,600	37,028
2020	-	-	291,182	48,572	89,800	16,514	167,700	30,838
2021	-	-	302,296	37,458	93,200	13,074	174,000	24,414
2022	-	-	235,281	8,927	96,700	9,503	180,600	17,747
2023	-	-	-	-	100,300	5,800	187,300	10,831
2024	-	-	-	-	104,100	1,957	194,400	3,655
	6,190,726	1,849,344	4,483,947	2,022,177	2,187,188	829,297	4,479,431	1,376,369

Conduit Debt

The Industrial Development Authority of the Town of Culpeper (IDA) has issued revenue bonds for the purpose of financing the construction of industrial and other facilities to support economic development in the Town. There were nine issues with total outstanding conduit debt of \$17,676,362 at June 30, 2004. Even though the obligations bear the name of the IDA, neither the IDA nor the Town is responsible for the payment of the debt. The debt is secured only by the cash payments agreed to be paid by the nongovernmental entity under the terms of their mortgage note or lease agreement.

Defeased Debt

On January 2, 2002 the Town issued General Obligation Public Improvement Refunding Bonds of \$8,018,000 with an interest rate of 4.455% to advance refund the 1992 General Obligation Public Improvement Bonds with a variable interest rate of 4.0% to 5.7%, and to partially refund the 1993 General Obligation Public Improvement Bonds with a variable interest rate of 5.0% to 7.0%. The 2002 General Obligation Public Improvement Refunding Bonds were issued at par, and after paying issuance costs of \$38,575 the net proceeds of \$7,979,425 were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 1992 General Obligation Bonds and 1993 General Obligation Bonds are called in February 2008 and April 2018, respectively. The advance refunding met the requirements of an in-substance debt defeasance on the 1992 General Obligation Bonds and 1993 General Obligation Bonds. The bonds to be called were removed from the Town's bonds payable.

(notes continued on next page)

NOTE 9 – LONG-TERM DEBT (Continued)

Defeased Debt (Continued)

On April 8, 2003 the Town issued General Obligation Refunding Bonds of \$2,173,825 with an interest rate of 2.29% to refund the 1993 General Obligation Public Improvement Bonds with a variable interest rate of 5.0% to 7.0%. The 2003 General Obligation Public Improvement Refunding Bonds were issued at par, and after paying issuance costs of \$24,500 the net proceeds of \$2,149,325 were used to pay off the 1993 debt. The bonds were removed from the Town's bonds payable.

As a result of the January 2, 2002 advance refunding, the Town reduced its debt service requirements for the 1992 and 1993 bonds by \$2,495,002 and \$5,115,000, respectively. This resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$191,155.

As a result of the April 8, 2003 refunding the Town reduced its debt service requirements by \$130,411. This resulted in an economic gain (difference between the present value of the debt service payments of the old and new debt) of \$8,431.

The unamortized amount deferred on the Enterprise Funds' refundings of \$429,525 is reported in the accompanying financial statements as a reduction of bonds payable and is being charged to operations as a component of interest until final maturity using the straight-line method.

NOTE 10 – CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES

The Town allows employees to accumulate limited unused vacation time based on the number of years of service and unlimited, unused sick leave. Accumulated vacation is paid upon termination. Sick leave is only available on an as needed basis; however, the Town pays retirees for accumulated sick leave up to a maximum of 200 days at \$10 per day. The Town accrues accumulated vacation in determining the liability arising from outstanding compensated absences.

As of June 30, 2004, the liability for accrued vacation and related payroll taxes is \$648,218. The amounts applicable to the enterprise funds are \$243,865, and have been recorded in those funds, and the amount applicable to the governmental funds is \$404,353. The amount expected to be paid from current resources is not reasonably determinable.

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

(notes continued on next page)

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500 or may be downloaded at <http://www.varetire.org/pdf/2003annurept.pdf>.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to VRS. The Town assumed this 5% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town’s contribution rate for the fiscal years ended June 30, 2004, 2003 and 2002 was 10.00%, 10.00% and 11.55%, respectively, of annual covered payroll.

Annual Pension Cost

For fiscal years ended 2004, 2003 and 2002, the Town’s annual pension cost of \$513,925, \$470,066 and \$489,258, respectively, for non-professional employees was equal to the Town’s required and actual contributions. At June 30, 2004, the Town had no net pension obligation. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.00% to 7.00% for non-law enforcement employees (non-LEO) and 4.5% to 5.75% for LEO employees and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Town’s assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market’s value of assets over a five-year period. The Town’s unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis within a period of 30 years or less.

Notes to Schedule of Employer Contributions and Funding Progress

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information as of the June 30, 2003, actuarial valuation follows:

Valuation date	June 30, 2003
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3.00%
Remaining amortization period	15 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return (1)	8.00%
Projected salary increases:	
Non-LEO employees (1)	4.25% to 6.10%
LEO employees (1)	4.50% to 5.75%
Cost-of-living adjustment	3.00%
(1) Includes inflation at 3%	

(notes continued on next page)

NOTE 12 – CONTINGENT LIABILITIES

Litigation

Various claims and lawsuits are pending against the Town. In the opinion of Town management, the potential loss on all claims and lawsuits will not be significant to the Town's financial statements.

Other

While \$12,432,335 of the general obligation bonds is outstanding in the Enterprise Funds from which repayment is anticipated, the General Fund has a contingent liability for repayment of the amount should the Enterprise Funds be unable to do so.

NOTE 13 – RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town has contracted with private carriers to administer employee health insurance. The Town also participates in two risk pools through the Virginia Municipal League. The Virginia Municipal Liability Pool insures property and casualty damage and general liability, and the Virginia Group Self-Insurance Liability Pool handles workers compensation coverage. The pools are underwritten by third party insurers for claims that exceed a specified amount. Excess premiums can be refunded as dividends after the statute of limitations for filing claims has expired. In the event of a loss deficit, funds are first taken from undistributed prior year's dividends. Future increases in premiums may be assessed to replenish the fund. Over the past several years, the Town has received dividends, and premiums have gone down. Also over the last four years, no insurance settlements have exceeded any insurance coverages.

NOTE 14 – JOINT VENTURE

The Town participates with the County of Culpeper and Culpeper Memorial Hospital in the Culpeper Cable Commission Channel 21. The cable channel provides local community access, coverage of Board and Council meetings and other local events. The equipment was made available to the Commission by the local cable TV company. The Town and the County each appoint three members to the Commission and the Hospital two members. The Town made a contribution of \$71,200 during the fiscal year 2004 to cover payroll and other operating expenses. The Town does not have an equity interest in the assets.

NOTE 15 – PERSONAL PROPERTY TAX RELIEF ACT OF 1998

Recent legislation by the Commonwealth enacted the Personal Property Tax Relief Act of 1998 (PPTRA). The effect of the legislation will result in a steady decline in personal property tax revenue, with a corresponding increase in intergovernmental revenue from the Commonwealth of Virginia. The Commonwealth of Virginia directly reimbursed taxpayers for tangible personal property tax levies paid on qualifying vehicles for calendar year 1998. The Commonwealth will pay to the Town a percentage of the reimbursable amount for calendar year 2004 and subsequent years. In fiscal year 2004, the effect of the legislation shifted \$195,329 from general property taxes to state revenue. The amount of the payments to the Treasurer for subsequent years will be 100% for qualifying vehicles with a value of \$1,000 or less; on the first \$20,000 the reimbursement will be 70%.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CULPEPER, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
 June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 1998	\$ 8,821,557	\$ 9,423,044	\$ 601,487	93.62%	\$ 3,600,181	16.71%
June 30, 1999	10,313,731	10,343,930	30,199	100.00%	3,712,250	0.81%
June 30, 2000	12,090,473	11,404,832	(685,641)	100.00%	3,736,848	-18.35%
June 30, 2001	13,437,017	12,646,310	(790,707)	100.00%	4,012,702	-19.71%
June 30, 2002	14,038,105	13,986,803	(51,302)	100.00%	4,257,862	-1.20%
June 30, 2003	14,208,678	15,598,045	1,389,367	91.09%	4,766,278	29.15%

SUPPORTING SCHEDULES

SCHEDULE 1

**TOWN OF CULPEPER, VIRGINIA
COMPUTATION OF LEGAL DEBT LIMIT
June 30, 2004**

Assessed valuations	
Assessed value of taxed real property	\$ <u>677,253,606</u>
Legal debt margin	
Debt limitation - 10 percent of total assessed value	\$ 67,725,361
Debt applicable to limitation:	
Total bonded debt	16,995,177
Less - water and wastewater revenue bonds	12,515,746
Total amount of debt applicable to debt limitation	<u>4,479,431</u>
Legal debt margin	<u>\$ 63,245,930</u>

STATISTICAL SECTION

TABLE 1

TOWN OF CULPEPER, VIRGINIA
GENERAL GOVERNMENT REVENUES BY SOURCE (NON-GAAP BUDGETARY BASIS)
LAST TEN FISCAL YEARS

Fiscal Years Ended June 30	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue From Use of Money and Property	Charges For Services	Miscellaneous	Recovered Costs	Inter- Governmental	Other Sources	Total
2004	\$ 1,352,454	\$ 3,952,464	\$ 312,347	\$ 186,078	\$ 280,759	\$ 157,829	\$ 601,359	\$ 622,077	\$ 1,793,912	\$ 2,814,706	\$ 12,073,985
2003	1,456,710	3,587,403	224,746	163,223	126,168	155,288	140,600	554,569	1,461,964	54,261	7,924,932
2002	1,507,594	3,594,399	121,763	82,146	170,195	170,737	94,763	467,368	1,444,182	-	7,653,147
2001	1,529,724	3,243,609	89,254	80,825	279,057	158,358	147,337	495,763	1,390,915	-	7,414,842
2000	1,577,406	2,978,597	94,719	64,016	277,862	156,375	77,844	377,909	1,988,119	-	7,592,847
1999	1,703,132	2,814,331	81,046	65,386	342,768	162,250	149,999	371,020	1,374,720	-	7,064,652
1998	1,595,657	2,641,532	82,399	72,076	373,652	160,008	63,098	250,349	1,087,345	-	6,326,116
1997	1,589,266	2,570,925	79,283	77,241	288,405	171,278	60,872	227,740	935,017	-	6,000,027
1996	1,484,076	2,077,365	55,092	71,512	234,828	173,805	123,756	227,740	1,435,874	10,140	5,894,188
1995	1,419,312	2,437,971	66,824	64,380	163,452	155,139	36,652	67,245	804,833	2,425	5,218,233

TABLE 2

TOWN OF CULPEPER, VIRGINIA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (NON-GAAP BUDGETARY BASIS)
LAST TEN FISCAL YEARS

Fiscal Years Ended June 30	General Government Administration	Public Safety	Public Works	Health and Welfare	Parks, Recreation and Cultural	Community Development	Capital Projects	Debt Service	Total
2004	\$ 1,620,458	\$ 2,518,589	\$ 2,197,942	\$ 7,393	\$ 361,605	\$ 769,056	\$ 4,232,816	\$ 390,968	\$ 12,098,827
2003	1,369,104	2,350,111	1,956,248	6,686	330,906	729,458	746,612	320,385	7,809,510
2002	1,303,062	2,217,440	1,750,530	-	296,693	666,289	964,993	353,424	7,552,431
2001	1,114,886	2,132,088	1,695,302	-	338,233	623,550	366,825	351,606	6,622,490
2000	1,189,470	1,828,262	1,724,219	-	283,617	383,546	1,429,325	1,889,116	8,727,555
1999	1,001,891	1,778,147	1,626,664	-	198,152	440,409	1,431,639	429,598	6,906,500
1998	861,672	1,809,432	1,593,990	-	356,401	333,802	1,002,590	417,404	6,375,291
1997	890,483	1,780,851	2,649,239	-	360,008	250,101	-	379,841	6,310,523
1996	809,919	1,736,592	1,771,290	-	368,815	267,689	-	344,273	5,298,578
1995	766,102	1,443,943	1,530,121	-	231,105	186,915	-	335,220	4,493,406

TABLE 3

**TOWN OF CULPEPER, VIRGINIA
ASSESSED VALUATION OF ALL TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Total
				Real Estate	Personal Property	
2004	\$ 636,202,400	\$ 94,391,470	\$ 23,099,925	\$ 41,051,206	\$ 1,394,951	\$ 796,139,952
2003	454,810,600	96,799,579	27,810,693	25,052,826	342,211	604,815,909
2002	444,808,500	87,004,208	25,713,679	34,704,097	414,810	592,645,294
2001	437,405,700	88,271,064	23,447,534	32,914,273	377,163	582,415,734
2000	429,780,000	29,588,044	8,795,488	33,815,403	378,095	502,357,030
1999	420,204,265	29,188,962	8,606,870	34,500,303	541,600	493,042,000
1998	384,850,600	26,336,662	7,643,189	29,962,551	473,960	449,266,962
1997	378,995,700	26,000,337	7,195,663	29,825,222	686,594	442,703,516
1996	367,536,403	22,929,024	6,895,415	29,260,570	525,455	427,146,867
1995	364,378,983	21,266,585	6,377,444	28,597,001	599,359	421,219,372

TABLE 4

**TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF PROPERTY TAX RATES
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Real Estate	Personal Property	Machinery and Tools	Public Utilities	
				Real Estate	Personal Property
2004	\$ 0.09	\$ 0.80	\$ 0.80	\$ 0.09	\$ 0.80
2003	0.13	0.80	0.80	0.13	0.80
2002	0.15	0.80	0.80	0.15	0.80
2001	0.17	0.80	0.80	0.17	0.80
2000	0.21	2.00	2.00	0.21	2.00
1999	0.21	2.00	2.00	0.21	2.00
1998	0.22	2.00	2.00	0.22	2.00
1997	0.22	2.00	2.00	0.22	2.00
1996	0.22	2.00	2.00	0.22	2.00
1995	0.22	2.00	2.00	0.22	2.00

Rates are presented per \$100 assessed value

TABLE 5

**TOWN OF CULPEPER, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Total Tax Levy (1)(2)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Levy
2004	\$ 1,533,742	\$ 1,490,096	97.15%	\$ 27,609	\$ 1,517,705	98.95%	\$ 89,081	5.81%
2003	1,619,076	1,545,834	95.48%	59,057	1,604,891	99.12%	115,221	7.12%
2002	1,610,210	1,561,918	97.00%	50,848	1,612,766	100.16%	104,998	6.52%
2001	1,635,950	1,562,672	95.52%	52,403	1,615,075	98.72%	107,054	6.54%
2000	1,724,305	1,638,696	95.04%	39,524	1,678,220	97.33%	136,058	7.89%
1999	1,696,580	1,638,075	96.55%	34,203	1,672,278	98.57%	105,455	6.22%
1998	1,548,734	1,514,073	97.76%	45,257	1,559,330	100.68%	78,275	5.05%
1997	1,474,508	1,435,830	97.38%	27,508	1,463,338	99.24%	102,436	6.95%
1996	1,425,677	1,385,587	97.19%	27,793	1,413,380	99.14%	108,441	7.61%
1995	1,320,402	1,280,604	96.99%	27,573	1,308,177	99.07%	111,113	8.42%
1994	1,281,076	1,242,187	96.96%	27,658	1,269,845	99.12%	111,687	8.72%

(1) Exclusive of penalties and interest.

(2) Beginning in the fiscal year 1999 - 2000 the total tax levy includes the Commonwealth's reimbursement.

TABLE 6

**TOWN OF CULPEPER, VIRGINIA
LARGEST REAL ESTATE ASSESSMENTS
June 30, 2004**

Name	Nature of Business	Assessed Value	Percent of Real Estate Levy
Verizon Virginia, Inc.	Local telephone service provider	\$ 22,101,669	3.26%
Society for Worldwide Interbank	Worldwide banking operation	13,511,800	2.00%
Dominion Square-Culpeper L.L.C.	Shopping center	13,343,400	1.97%
Wal-Mart Stores, Inc.	Retail/grocery store	11,178,000	1.65%
Culpeper Commons, L.P.	Multi-family housing	8,426,600	1.24%
Medical Facilities of America, XVI	Nursing home and elderly care	6,803,500	1.00%
Culpeper Shopping Center Joint Venture	Shopping center	5,277,300	0.78%
Southridge/Culpeper, L.P.	Multi-family housing	4,843,200	0.72%
Columbia Gas of Virginia, Inc.	Gas utility company	4,739,504	0.70%
Keller M.G. Co., Inc.	Furniture manufacturer	4,620,500	0.68%

TABLE 7

TOWN OF CULPEPER, VIRGINIA
RATIO OF NET GENERAL BONDED DEBT TO
ASSESED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Fiscal Years Ended June 30	Population (1)	Assessed Value	Gross and Net Bonded Debt (2)	Less: Debt Payable From Enterprise Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2004	11383	\$ 796,139,952	\$ 16,995,177	\$ 12,515,746	\$ 4,479,431	0.0056	\$ 393.52
2003	10660	604,815,909	10,459,687	8,516,466	1,943,221	0.0032	182.29
2002	9664	592,645,294	10,616,620	8,433,438	2,183,182	0.0037	225.91
2001	9664	582,415,734	11,105,000	8,693,870	2,411,130	0.0041	249.50
2000	9664	502,357,030	11,835,001	9,210,587	2,624,414	0.0052	271.57
1999	9453	493,042,000	12,525,001	9,694,802	2,830,199	0.0057	299.40
1998	9453	449,266,962	13,200,001	10,171,301	3,028,700	0.0067	320.40
1997	9453	442,703,516	13,805,000	10,600,083	3,204,917	0.0072	339.04
1996	9453	427,146,867	14,018,000	10,644,776	3,373,224	0.0079	356.84
1995	9453	421,219,372	15,170,000	11,638,925	3,531,075	0.0084	373.54

Notes: (1) Bureau of the Census and Culpeper town and county planning staff estimates
(2) Includes all general long-term debt obligations

TABLE 8

TOWN OF CULPEPER, VIRGINIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL LONG-TERM DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS

Fiscal Years Ended June 30	Principal (1)	Interest	Total Debt Service	Total Governmental Expenditures (1)	Ratio of Debt Service to Governmental Expenditures
2004	\$ 263,790	\$ 127,178	\$ 390,968	\$ 12,098,827	3.23%
2003	303,115	17,270	320,385	7,809,510	4.10%
2002	233,337	120,087	353,424	7,552,431	4.68%
2001	217,277	134,329	351,606	6,622,490	5.31%
2000	205,785	183,331	389,116	7,227,555	5.38%
1999	198,501	231,097	429,598	6,906,500	6.22%
1998	176,217	241,186	417,403	6,375,291	6.55%
1997	168,232	211,609	379,841	6,310,523	6.02%
1996	157,926	186,347	344,273	5,298,578	6.50%
1995	140,336	194,884	335,220	4,493,406	7.46%

TABLE 9

**TOWN OF CULPEPER, VIRGINIA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Property Value			Residential Construction (1)		Commercial Construction (1)		Bank
	Commercial (3)	Residential (3)	Total (2)	No. of Units	Value	No. of units	Value	Deposits (4)
	2004	\$ 237,935,100	\$ 455,178,100	\$ 693,113,200	561	\$ 78,110,945	7	\$ 1,766,825
2003	226,244,000	409,958,400	636,202,400	232	24,734,300	4	1,120,000	475,961,000
2002	158,635,000	286,173,500	444,808,500	116	8,964,900	6	3,339,600	474,185,000
2001	156,531,400	280,874,300	437,405,700	70	5,090,500	2	16,781,200	413,274,000
2000	169,583,497	260,196,513	429,780,010	40	3,871,911	5	2,492,770	398,843,506
1999	163,879,663	256,324,602	420,204,265	36	5,002,707	4	1,837,357	374,164,000
1998	152,015,987	232,834,613	384,850,600	47	9,893,145	9	1,814,746	355,006,306
1997	147,260,700	231,735,000	378,995,700	66	5,620,449	9	5,266,000	350,326,800
1996	N/A	N/A	367,536,403	31	2,497,017	9	3,010,605	345,486,770
1995	N/A	N/A	364,378,983	16	2,470,000	9	1,748,134	296,966,382

- (1) Source: Town of Culpeper, Virginia Planning Department
- (2) Source: Town of Culpeper, Virginia Annual Financial Reports
- (3) Source: Culpeper County Commissioner of the Revenue's Office
- (4) Source: Schedule H of bank franchise tax returns, and the FDIC web site for 1998-2004

TABLE 10

**TOWN OF CULPEPER, VIRGINIA
PRINCIPAL EMPLOYERS
June 30, 2004**

<u>Employer</u>	<u>Product or Service</u>	<u>Total Estimated Employment *</u>
Culpeper County Schools	Public Agency	1076
VA Department of Transportation (VDOT)	Public Agency	722
Culpeper Regional Hospital	Health Care	584
Wal-Mart	Commercial Retailer/ Grocer	500
Culpeper County Government	Public Agency	330

* Based on 2000 Census Data.

TABLE 11

**TOWN OF CULPEPER, VIRGINIA
DEMOGRAPHIC STATISTICS
June 30, 2004**

Population		
1990 (3)		8,581
1994 (1)		9,453
2000 (5)		9,664
2003 (5)		10,660
2004 (6)		11,383
Unemployment rate (County of Culpeper, Virginia) (2)		3.60%
Number school age children (5)		2,043
Median age (5)		34.9
Median personal income	\$	59,400

- (1) Rappahannock-Rapida Planning District Data Summary
- (2) Virginia Employment Commission
- (3) 1990 census data
- (4) U.S. Bureau of Economic Analysis, Regional Accounting Data
- (5) 2000 census data
- (6) Town of Culpeper Planning and Zoning Department

**TOWN OF CULPEPER, VIRGINIA
MISCELLANEOUS STATISTICS
June 30, 2004**

Date of incorporation:	January 11, 1898	
Form of Government:	Council - Manager	
Area:	In Square Miles	7
Miles of Streets:	Total	47
Number of street lights		792
Fire Protection:	Number of Stations (volunteer stations)	1
	Number of paid personnel and officers	0
Police Protection:	Number of Stations	1
	Number of police personnel and officers	42
	Number of patrol units	22
	Number of law violations:	
	Part one crimes	738
	Traffic violations	3,738
	Parking violations	2,444
Sewage System:	Miles of sanitary sewers	66
	Miles of storm sewers	20
	Number of treatment plants	1
	Number of pumping stations	7
	Number of service connections	4,482
	Daily average treatment in gallons	3,056,104
	Maximum daily capacity of plant in gallons	3,000,000
Water System:	Miles of water mains	67
	Number of service connections	4,731
	Number of fire hydrants	374
	Daily average consumption in gallons	1,518,326
	Maximum daily capacity of plant in gallons	4,000,000
Public Schools:	Number of elementary schools	2
	Number of secondary schools	1
	Number of school age population	2,043
Hospitals:	Number of hospitals	1
	Number of patient beds	70

COMPLIANCE SECTION

THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants
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(1918 – 2000)

Founded 1948

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

To the Town Council
Culpeper, Virginia 22701

We have audited the basic financial statements of the Town of Culpeper, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Compliance

As part of obtaining reasonable assurance about whether the Town's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain material instances of noncompliance which we have communicated to management in a separate letter dated October 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit for the year ended June 30, 2004, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Town's general purpose financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

To the Town Council
Culpeper, Virginia 22701
(Report on Compliance and on Internal Control Over Financial Reporting
based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*)
Page 2

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

THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

October 29, 2004

TOWN OF CULPEPER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2004

As more fully described in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on and 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 Investments Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Personal Property Tax Relief Act

State Agency Requirements:

Highway Maintenance Funds

LOCAL COMPLIANCE MATTERS

Town Charter