

COUNTY OF RAPPAHANNOCK, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

COUNTY OF RAPPAHANNOCK, VIRGINIA

Board of Supervisors

Roger A. Welch, Chair

S. Bryant Lee, Vice-Chair
Chris Parrish

Ronald L. Frazier
Mike Biniek

County School Board

John Wesley Mills, Chair

Aline Johnson, Vice-Chair
Meredith Gorfein

Rosa Crocker
Beth Hilscher

County Social Services

Judith Tole

Ruth Kiger

Deborah Fluornoy

County Library Board

Louise VanDort, Chair

John T. Feeney
John McCarthy
Marie Davis

Fran Krebser
Nancy Ely Raphael
James Oyster

Kathleen Grove

Other Officials

Judge of the Circuit Court Jeffrey Parker
Clerk of the Circuit CourtMargaret R. Ralph
Judge of the General District Court Charles Foley
Judge of Juvenile & Domestic Relations District Court..... Gregory Ashwell
Commonwealth's Attorney & County Attorney Peter H. Luke
Commissioner of the Revenue Beverly S. Atkins
Treasurer..... Frances A. Foster
Sheriff Connie Smith
Superintendent of SchoolsDr. Aldridge Boone
Director of Department of Social Services..... Beverly Dunford
Librarian Dave Shaffer
County AdministratorJohn McCarthy

COUNTY OF RAPPAHANNOCK, VIRGINIA

Financial Report
Year Ended June 30, 2010

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

The Honorable Members of the Board of Supervisors County of Rappahannock, Virginia

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Rappahannock, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, the County implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits other than Pensions* effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011, on our consideration of the County of Rappahannock, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. The County of Rappahannock, Virginia has not presented the Management's Discussion and Analysis.

The General Fund budgetary comparison information, schedule of pension funding progress, and schedule of OPEB Funding progress as listed in the table of contents 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 consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the County of Rappahannock, Virginia's basic financial statements. The statements and schedules included as other supplementary information as listed in the table of contents and the other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County of Rappahannock, Virginia. The statements and schedules included as other supplementary information and the schedule of expenditures of federal awards 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 other statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
January 13, 2011

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets
At June 30, 2010

	Component Units		
	Governmental Activities	School Board	Recreational Facilities Authority
Assets:			
Cash and cash equivalents	\$ 4,640,134	\$ 1,057,762	\$ 48,317
Investments	539,338	-	-
Receivables, net			
Due within one year	1,017,576	41,071	-
Due in more than one year	424,746	-	-
Prepays	15,400	215,256	-
Inventory	-	8,324	-
Due from component unit School Board	417,035	-	-
Due from other governments	451,833	192,128	-
Capital assets:			
Land and construction in progress	1,706,773	13,005	20,000
Other capital assets, net of accumulated depreciation	6,383,475	4,735,412	29,894
Capital assets, net	\$ 8,090,248	\$ 4,748,417	\$ 49,894
Total assets	\$ 15,596,310	\$ 6,262,958	\$ 98,211
Liabilities:			
Accounts payable and accrued expenses	\$ 155,366	\$ 1,079,182	-
Compensated absences	219,790	83,566	-
Prepaid real estate taxes	13,587	-	-
Other post employment benefits	-	81,000	-
Due to primary government	-	417,035	-
Long-term liabilities:			
Due within one year:			
Bonds and loans payable	409,628	-	-
Due in more than one year:			
Bonds and loans payable	4,206,736	-	-
Accrued landfill remediation costs	2,230,842	-	-
Total liabilities	\$ 7,235,949	\$ 1,660,783	-
Net Assets:			
Invested in capital assets, net of related debt	\$ 3,473,884	\$ 4,761,422	\$ 49,894
Unrestricted	4,886,477	(159,247)	48,317
Total net assets	\$ 8,360,361	\$ 4,602,175	\$ 98,211

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

COUNTY OF RAPPAHANNOCK, VIRGINIA

Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government administration	\$ 1,210,317	\$ 7,375	\$ 187,277	\$ -
Judicial administration	547,850	41,936	321,145	-
Public safety	2,946,938	138,177	895,321	-
Public works	1,036,017	162,190	32,444	-
Health and welfare	1,709,559	-	962,323	-
Education	8,071,433	-	-	-
Parks, recreation and cultural	244,550	8,895	33,886	-
Community development	325,359	-	39,261	-
Interest on long-term debt	197,662	-	-	-
Total Primary Government	\$ 16,289,685	\$ 358,573	\$ 2,471,657	\$ -
Component Units				
Rappahannock County Public Schools	\$ 11,400,556	\$ 280,251	\$ 2,880,559	\$ -
Rappahannock County Recreational Facilities Authority	21,518	24,779	-	-
Total Component Units	\$ 11,422,074	\$ 305,030	\$ 2,880,559	\$ -

General Revenues

Taxes:

General property taxes, real and personal

Local sales and use taxes

Consumers' utility taxes

Taxes on recordation of wills

Motor vehicle licenses

Meals and lodging taxes

Other

Payment from County of Rappahannock -- Education

Grants and contributions not restricted to specific programs

Unrestricted revenues from use of money and property

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Component Units		
Total Primary Government	School Board	Recreational Facilities Authority
\$ (1,015,665)	\$ -	\$ -
(184,769)	-	-
(1,913,440)	-	-
(841,383)	-	-
(747,236)	-	-
(8,071,433)	-	-
(201,769)	-	-
(286,098)	-	-
(197,662)	-	-
<u>\$ (13,459,455)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ (8,239,746)	\$ -
<u>-</u>	<u>-</u>	<u>3,261</u>
<u>\$ -</u>	<u>\$ (8,239,746)</u>	<u>\$ 3,261</u>
\$ 11,161,961	\$ -	\$ -
420,378	-	-
166,241	-	-
90,912	-	-
154,309	-	-
122,671	-	-
105,588	-	-
-	8,064,569	-
1,329,829	-	-
138,021	-	8
236,906	101,092	-
<u>\$ 13,926,816</u>	<u>\$ 8,165,661</u>	<u>\$ 8</u>
\$ 467,361	\$ (74,085)	\$ 3,269
<u>7,893,000</u>	<u>4,676,260</u>	<u>94,942</u>
<u>\$ 8,360,361</u>	<u>\$ 4,602,175</u>	<u>\$ 98,211</u>

Fund Financial Statements

Balance Sheet
 Governmental Funds
 At June 30, 2010

	<u>General Fund</u>	<u>School Construction Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 4,626,380	\$ 72	\$ 13,682	\$ 4,640,134
Investments	-	-	539,338	539,338
Property taxes receivable, net	900,391	-	-	900,391
Accounts receivable	104,159	-	-	104,159
Notes receivable	437,772	-	-	437,772
Due from component unit School Board	417,035	-	-	417,035
Due from other governments	451,833	-	-	451,833
Prepaid items	15,400	-	-	15,400
Total assets	<u>\$ 6,952,970</u>	<u>\$ 72</u>	<u>\$ 553,020</u>	<u>\$ 7,506,062</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 62,611	\$ -	\$ -	\$ 62,611
Deferred revenue	1,220,188	-	-	1,220,188
Total liabilities	<u>\$ 1,282,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,282,799</u>
Fund Balance:				
Unreserved:				
Designated for capital projects	\$ -	\$ 72	\$ -	\$ 72
Designated for library operations	-	-	553,020	553,020
Undesignated	5,670,171	-	-	5,670,171
Total fund balance	<u>\$ 5,670,171</u>	<u>\$ 72</u>	<u>\$ 553,020</u>	<u>\$ 6,223,263</u>
Total liabilities and fund balance	<u>\$ 6,952,970</u>	<u>\$ 72</u>	<u>\$ 553,020</u>	<u>\$ 7,506,062</u>

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 At June 30, 2010

Total fund balances for governmental funds (Exhibit 3) \$ 6,223,263

Total net assets reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and construction in progress	\$	1,706,773	
Buildings and improvements, net of depreciation		1,681,130	
Equipment, net of depreciation		1,126,193	
School Board capital assets, net of depreciation		<u>3,576,152</u>	
 Total capital assets			 8,090,248

Some of the County's receivables will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as deferred revenue in the funds.

Taxes receivable	\$	768,829	
Note receivable		<u>437,772</u>	
 Total			 1,206,601

Liabilities applicable to the County's governmental activities which are not due and/or payable in the current period are not reported as fund liabilities. Balances of such liabilities affecting net assets are as follows:

Accrued interest on debt	\$	(92,755)	
Bonds and notes payable		(4,616,364)	
Compensated absences		(219,790)	
Accrued landfill remediation costs		<u>(2,230,842)</u>	
 Total			 <u>(7,159,751)</u>

Total net assets of governmental activities (Exhibits 1 and 2) \$ 8,360,361

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2010

	General Fund	School Construction Fund	Special Revenue Fund	Total Governmental Funds
Revenues:				
Property taxes	\$ 11,103,838	\$ -	\$ -	\$ 11,103,838
Other local taxes	1,060,099	-	-	1,060,099
Permits, privilege fees and regulatory licenses	159,247	-	-	159,247
Fines and forfeitures	95,275	-	1,491	96,766
Use of money and property	66,383	-	71,638	138,021
Charges for services	95,156	-	7,404	102,560
Miscellaneous	244,735	-	733	245,468
Recovered costs	163,287	-	-	163,287
Intergovernmental:				
Revenue from the Commonwealth	3,224,753	-	33,886	3,258,639
Revenue from the Federal Government	542,847	-	-	542,847
Total revenues	<u>\$ 16,755,620</u>	<u>\$ -</u>	<u>\$ 115,152</u>	<u>\$ 16,870,772</u>
Expenditures:				
Current:				
General government administration	\$ 1,191,617	\$ -	\$ -	\$ 1,191,617
Judicial administration	545,066	-	-	545,066
Public safety	3,046,524	-	-	3,046,524
Public works	1,149,842	-	-	1,149,842
Health and welfare	1,701,457	-	-	1,701,457
Education - local community college	6,864	-	-	6,864
Education - public school system	7,761,171	-	-	7,761,171
Parks, recreation and cultural	9,500	-	185,247	194,747
Community development	325,359	-	-	325,359
Capital projects	3,912	-	-	3,912
Debt service:				
Principal payments	400,623	-	-	400,623
Interest and fiscal charges	227,441	-	-	227,441
Total expenditures	<u>\$ 16,369,376</u>	<u>\$ -</u>	<u>\$ 185,247</u>	<u>\$ 16,554,623</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 386,244</u>	<u>\$ -</u>	<u>\$ (70,095)</u>	<u>\$ 316,149</u>
Other financing sources (uses):				
Transfers in	\$ -	\$ -	\$ 115,445	\$ 115,445
Transfers out	(115,445)	-	-	(115,445)
Insurance recoveries	2,999	-	-	2,999
Total other financing sources (uses)	<u>\$ (112,446)</u>	<u>\$ -</u>	<u>\$ 115,445</u>	<u>\$ 2,999</u>
Net change in fund balance	\$ 273,798	\$ -	\$ 45,350	\$ 319,148
Fund balance, beginning of year	<u>5,396,373</u>	<u>72</u>	<u>507,670</u>	<u>5,904,115</u>
Fund balance, end of year	<u>\$ 5,670,171</u>	<u>\$ 72</u>	<u>\$ 553,020</u>	<u>\$ 6,223,263</u>

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit 5)	\$	319,148	
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			(133,899)
School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship increased the transfers to the School Board.			(232,398)
In the statement of activities, a gain on the sale of property is recorded when the sale occurs. When a note receivable is given in consideration, interest income is also recorded as the note is repaid. In a governmental fund, when property is sold and a note receivable is given as consideration, income is only recognized to the extent that principal and interest payments are received.			(8,562)
Under the modified accrual basis of accounting used in the governmental funds, revenues are recorded when measurable and realizable to pay current obligations. However, in the statement of net assets revenues are reported when earned. This requires an adjustment to convert the revenues to the accrual basis.			58,123
Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.			
Repayments:			
General obligation school bonds	\$	375,000	
Capital leases		25,623	
Amortization of bond premium		21,785	
Net adjustment		<u> </u>	422,408
Decrease in accrued landfill remediation costs			51,644
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of the following:			
Compensated absences	\$	(17,097)	
Accrued interest on bonds and loans		7,994	
Net adjustment		<u> </u>	(9,103)
Change in net assets of governmental activities (Exhibit 2)	\$		<u><u>467,361</u></u>

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

Statement of Fiduciary Net Assets
 At June 30, 2010

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ <u>20,000</u>
Total assets	\$ <u><u>20,000</u></u>
Liabilities:	
Amounts held for others	\$ <u>20,000</u>
Total liabilities	\$ <u><u>20,000</u></u>

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

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

The County of Rappahannock (the County), located in northwest Virginia and bordered by the counties of Fauquier, Culpeper, Madison, Page and Warren, was founded in 1833. The County has a population of 7,035 and land area of 267 square miles.

The County is governed under the County Administrator - Board of Supervisors form of government. Rappahannock County engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, human service programs, planning, community development and recreation, and cultural activities.

The financial statements of the County have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the government and its discretely presented component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize they are legally separate from the government.

Discretely Presented Component Units

The Rappahannock County School Board is responsible for elementary and secondary education within the County. School Board members are elected by the County voters. The School Board is fiscally dependent upon the County because the County's Board of Supervisors approves the School Board budget, provides substantial funding for operations and must approve any debt issuance. The Rappahannock County School Board does not prepare separate financial statements.

The Rappahannock County Recreational Facilities Authority administers and maintains the Rappahannock County Recreation Center. The County's Board of Supervisors appoints the members of the Recreational Facilities Authority, and the County Administrator manages its operations. Because the County effectively controls the Authority, it has been presented as a component unit of the County. The Recreational Facilities Authority does not prepare separate financial statements.

The Recreational Facilities Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting.

Related Organization - The County's Board of Supervisors appoints the board members of the Rappahannock County Water and Sewer Authority; however, the County's accountability for the organization does not extend beyond making board appointments. The Water and Sewer Authority operates the Sperryville area water and sewer systems.

The Water and Sewer Authority is not included in the reporting entity. A copy of its financial statements can be obtained from the County Administrator's office.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual fiduciary funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 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, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County's fiduciary funds are presented in the fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide financial statements.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

The following is a brief description of the specific funds used by the County in fiscal year 2010.

1. Governmental Funds: The County has the following major funds for financial reporting purposes.
 - a. General Fund: The General Fund is the general operating fund for the County. This fund accounts for all revenues and expenditures of the County which are not accounted for in the other funds. The General Fund also includes the activities for E-911, the law library and landfill operations.
 - b. School Construction Fund: This fund accounts for resources and expenditures for school construction. Primary funding sources are school bond proceeds and investment earnings.
 - c. Special Revenue Fund: The Special Revenue Fund accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund consists of the Library Fund.
2. Fiduciary Funds (Trust and Agency Funds):

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of the Special Welfare Fund.

The County has no Trust Funds.

3. Component Units:
 - a. Rappahannock County School Board: The Rappahannock County School Board has the following major funds for financial reporting purposes:

Governmental Funds:

School Operating Fund - This fund is the primary operating fund of the School Board and accounts for all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the County of Rappahannock and State and Federal grants.

School Cafeteria Fund - This fund accounts for the operations of the School Board's food service program. Financing is provided primarily by food and beverage sales and State and Federal grants.
 - b. Rappahannock Recreational Facilities Authority: The Rappahannock Recreational Facilities Authority consists of only one fund, which is an enterprise fund.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

The County applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

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

D. Budgets and Budgetary Accounting

The Board of Supervisors annually adopts budgets for the various funds of the primary government and component unit School Board. All appropriations are legally controlled at the department level for the primary government funds. The School Board appropriation is determined by the Board of Supervisors and controlled in total by the primary government.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all major funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the major funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

The following procedures are used by the County in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Board of Supervisors. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories. Public hearings are required to amend the budget if amendments exceed 1% of the original adopted budget or \$500,000 whichever is less.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. The component unit School Board funds are integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Budgets and Budgetary Accounting (Continued)

8. All budgetary data presented in the accompanying financial statements is the original budget as of June 30, 2010, as adopted, appropriated and legally amended.
9. The expenditures budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government and at the function level for the School Board. If budget amendments exceed 1% of the original adopted budget the Board of Supervisors may legally amend the budget only by following procedures used in the adoption of the original budget. There was no budget amendment during the year that exceeded the 1% or \$500,000 limitations. The Board of Supervisors must approve all appropriations and transfers of appropriated amounts.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Investments for the government, as well as for its component units, are reported at fair value.

F. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$295,054 at June 30, 2010 and is comprised solely of property taxes.

G. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the primary government and component unit School Board, and as assets in the government-wide financial statements to the extent the County's and School Board's capitalization threshold of \$5,000 is met. The County and component unit School Board do not have any infrastructure in their capital assets since roads, streets, bridges and similar assets within their boundaries are property of the Commonwealth of Virginia. Depreciation is recorded on general capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings and improvements	20 to 40 years
Furniture and other equipment	5 to 10 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.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Compensated Absences

The County and component unit School Board incur liabilities related to compensated absences (annual and sick leave benefits) when vested. Because the timing of the settlement of the liability related to compensated absences is not considered to be estimable, the entire amount of the liability has been classified as current in the government-wide financial statements.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Long-Term Obligations

The County reports long-term debt at face value. The face value of the debt is believed to approximate fair value.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

Investments

Statutes authorize the County 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 for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers’ acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

The County of Rappahannock’s investments at June 30, 2010 were held by the County or in the County’s name by the County’s custodial banks or counterparty; except \$95,448 of U.S. Agencies where the underlying securities were uninsured and held by the County’s counterparty, and \$93,024 of Common Equities where the underlying securities were uninsured and held by the County’s counterparty.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The County's rated debt investments as of June 30, 2010 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's rating scale.

Locality's Rated Debt Investments' Values			
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>		
	<u>AAA</u>	<u>AA-</u>	<u>Unrated</u>
U.S. Agencies	\$ 41,824	\$ -	\$ -
State Non-Arbitrage Pool	72	-	-
Taxable Municipal Bonds	-	53,624	
Closed End Mutual Fund	-	-	18,657
Open End Mutual Fund	-	-	330,328
Common Equity	-	-	93,024
Total	<u>\$ 41,896</u>	<u>\$ 53,624</u>	<u>\$ 442,009</u>

Interest Rate Risk

<u>Investment Maturities (in years)</u>			
<u>Investment Type</u>	<u>Fair Value</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
U.S. Agencies	\$ 41,824	\$ -	\$ 41,824
Taxable Municipal Bonds	53,624	27,782	25,842
Total	<u>\$ 95,448</u>	<u>\$ 27,782</u>	<u>\$ 67,666</u>

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission (SEC).

NOTE 3—PROPERTY TAXES:

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5th. The County bills and collects its own property taxes.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 4—RECEIVABLES:

Receivables at June 30, 2010 consist of the following:

	<u>Primary Government General Fund</u>	<u>Component Unit School Fund</u>
Property taxes	\$ 1,195,445	\$ -
Utility taxes	20,490	-
Clerk of the circuit court	29,990	-
Meals taxes	37,201	-
Other	16,478	41,071
Subtotal	<u>\$ 1,299,604</u>	<u>\$ 41,071</u>
Allowance for uncollectibles	(295,054)	-
Net accounts receivable	\$ 1,004,550	\$ 41,071
Notes receivable	437,772	-
Total receivables	<u>\$ 1,442,322</u>	<u>\$ 41,071</u>
Reconciliation to Exhibit 1:		
Receivables, net		
Due within one year	\$ 1,017,576	\$ 41,071
Due in more than one year	424,746	-
Total receivables	<u>\$ 1,442,322</u>	<u>\$ 41,071</u>

On March 9, 2005, the County entered into an agreement to sell property for \$520,000. The County received a promissory note for this sale. The note accrues simple interest at 4.0% annually. The interest rate can increase by 2% on each of the interest change dates if the buyer does not meet the cumulative value of issued building permits by each of these dates as stipulated in the note. Principal and interest repayment installments of \$3,151 are receivable monthly. The note matures on March 9, 2015, at which time all outstanding principal and interest is due. At June 30, 2010, the outstanding principal balance amounted to \$437,772.

During the year ended June 30, 2010, the buyer defaulted on the note and proposed a deal in compromise in lieu of accepting foreclosure by the County. On September 1, 2010, the property was sold to Aileen of Rappahannock, LLC.

Annual requirements to amortize the note receivable and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 13,026	\$ 10,500
2011	27,235	19,816
2012	28,894	18,157
2013	30,653	16,398
2014	32,520	14,531
2015	305,444	530
Total	<u>\$ 437,772</u>	<u>\$ 79,932</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 5—DUE FROM OTHER GOVERNMENTAL UNITS:

	<u>Governmental Activities</u>	<u>Component Unit</u>
	<u>General Fund</u>	<u>School Board</u>
Rappahannock Water & Sewer Authority	\$ 44,393	\$ -
Commonwealth of Virginia:		
Local sales tax	83,057	158,188
Communications sales and use tax	61,298	-
Comprehensive services act	77,964	-
Public assistance	20,522	-
Shared expenses and grants	107,555	-
Other	15,280	-
Federal government:		
Public assistance	41,764	-
Federal pass-through school funds	-	33,940
	<u>\$ 451,833</u>	<u>\$ 192,128</u>

NOTE 6—INTERFUND ACTIVITY:

Primary Government:	
Transfers To/From Other Funds:	
Transfer to the Library Fund to support operations	\$ <u>115,445</u>
Component Unit - School Board:	
Transfers To/From Other Funds:	
Transfer to the School Cafeteria Fund for food service	\$ <u>31,937</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 7—CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2010.

Governmental Activities:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 1,706,773	\$ -	\$ -	\$ 1,706,773
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>\$ 1,706,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,706,773</u>
Other capital assets:				
Buildings and improvements	\$ 2,843,660	\$ 33,263	\$ -	\$ 2,876,923
School buildings, improvements and equipment *	4,570,000	-	(375,000)	4,195,000
Furniture, equipment and vehicles	<u>1,703,033</u>	<u>155,923</u>	<u>-</u>	<u>1,858,956</u>
Total other capital assets	<u>\$ 9,116,693</u>	<u>\$ 189,186</u>	<u>\$ (375,000)</u>	<u>\$ 8,930,879</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 1,095,128	\$ 100,665	\$ -	\$ 1,195,793
School buildings, improvements and equipment *	690,450	71,000	(142,602)	618,848
Furniture, equipment and vehicles	<u>581,343</u>	<u>151,420</u>	<u>-</u>	<u>732,763</u>
Total accumulated depreciation	<u>\$ 2,366,921</u>	<u>\$ 323,085</u>	<u>\$ (142,602)</u>	<u>\$ 2,547,404</u>
Other capital assets, net	<u>\$ 6,749,772</u>	<u>\$ (133,899)</u>	<u>\$ (232,398)</u>	<u>\$ 6,383,475</u>
Net capital assets	<u>\$ 8,456,545</u>	<u>\$ (133,899)</u>	<u>\$ (232,398)</u>	<u>\$ 8,090,248</u>
Depreciation expense was allocated as follows:				
General government administration		\$ 52,557		
Judicial administration		1,250		
Public safety		129,690		
Public works		18,785		
Education		71,000		
Parks, recreation and cultural		<u>49,803</u>		
Total depreciation expense		<u>\$ 323,085</u>		

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Component Unit School Board:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 13,005	\$ -	\$ 13,005
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 13,005</u>	<u>\$ -</u>	<u>\$ 13,005</u>
Other capital assets:				
Buildings and improvements	\$ 12,056,339	\$ 50,500	\$ -	\$ 12,106,839
School buildings, improvements and equipment allocated to County *	(4,570,000)	-	375,000	(4,195,000)
Furniture, equipment and vehicles	1,069,530	6,800	-	1,076,330
Total other capital assets	<u>\$ 8,555,869</u>	<u>\$ 57,300</u>	<u>\$ 375,000</u>	<u>\$ 8,988,169</u>
Less: Accumulated depreciation for:				
Buildings and improvements	\$ 3,750,867	\$ 293,690	\$ -	\$ 4,044,557
School buildings, improvements and equipment allocated to County *	(690,450)	(71,000)	142,602	(618,848)
Furniture, equipment and vehicles	757,098	69,950	-	827,048
Total accumulated depreciation	<u>\$ 3,817,515</u>	<u>\$ 292,640</u>	<u>\$ 142,602</u>	<u>\$ 4,252,757</u>
Other capital assets, net	<u>\$ 4,738,354</u>	<u>\$ (235,340)</u>	<u>\$ 232,398</u>	<u>\$ 4,735,412</u>
Net capital assets	<u>\$ 4,738,354</u>	<u>\$ (222,335)</u>	<u>\$ 232,398</u>	<u>\$ 4,748,417</u>
Depreciation expense allocated to education		<u>\$ 292,640</u>		

* School Board capital assets are jointly owned by the County (primary government) and the component unit School Board. The County share of the School Board capital assets is in proportion to the debt owed on such assets by the County. The County reports depreciation on these assets as an element of its share of the costs of the public school system.

Reconciliation of primary government net assets invested in capital assets, net of related debt:

Net capital assets	\$ 8,090,248
Long-term debt applicable to capital assets at June 30, 2010	<u>(4,616,364)</u>
Net assets invested in capital assets, less related debt	<u>\$ 3,473,884</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Component Unit Recreational Facilities Authority:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Other capital assets:				
Building and improvements	\$ 110,525	\$ -	\$ -	\$ 110,525
Equipment	4,017	-	-	4,017
Total other capital assets	<u>\$ 114,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,542</u>
Less: Accumulated depreciation for:				
Building and improvements	\$ 77,212	\$ 3,865	\$ -	\$ 81,077
Equipment	3,348	223	-	3,571
Total accumulated depreciation	<u>\$ 80,560</u>	<u>\$ 4,088</u>	<u>\$ -</u>	<u>\$ 84,648</u>
Other capital assets, net	<u>\$ 33,982</u>	<u>\$ (4,088)</u>	<u>\$ -</u>	<u>\$ 29,894</u>
Net capital assets	<u>\$ 53,982</u>	<u>\$ (4,088)</u>	<u>\$ -</u>	<u>\$ 49,894</u>

NOTE 8—LONG-TERM OBLIGATIONS:

General Fund revenues are used to pay all long-term general obligation debt, General Fund capital leases and compensated absences. School Fund revenues and appropriations from the General Fund are used to pay its compensated absences.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

The following is a summary of long-term debt transactions of the County for the year ended June 30, 2010.

	Balance July 1, 2009	Additions	Retirements & Other Reductions	Balance June 30, 2010	Current Portion
General obligation bonds:					
School	\$ 4,570,000	\$ -	\$ (375,000)	\$ 4,195,000	\$ 365,000
Add: Unamortized bond premium	173,772	-	(21,785)	151,987	20,189
State Literary Fund loans:					
School	-	-	-	-	-
Capital leases	295,000	-	(25,623)	269,377	24,439
 Total	 <u>\$ 5,038,772</u>	 <u>\$ -</u>	 <u>\$ (422,408)</u>	 <u>\$ 4,616,364</u>	 <u>\$ 409,628</u>

Reconciliation to Exhibit 1:

Long-term liabilities due within one year:

 Bonds and loans payable \$ 409,628

Long-term liabilities due in more than one year:

 Bonds and loans payable 4,206,736

Total \$ 4,616,364

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

Year Ending June 30,	Principal	Interest
2011	\$ 365,000	\$ 196,176
2012	355,000	178,129
2013	345,000	161,044
2014	345,000	144,209
2015	335,000	127,249
2016-2020	1,525,000	383,794
2021-2025	<u>925,000</u>	<u>104,872</u>
Total	<u>\$ 4,195,000</u>	<u>\$ 1,295,473</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Indebtedness:

	<u>Amount Outstanding</u>	<u>Amount Due in One Year</u>
<u>General Obligation School Bonds:</u>		
\$3,720,000, Series 2004, issued November 10, 2004, Virginia Public School Authority Bonds, due in annual installments ranging from \$185,000 to \$190,000 through July 2025, interest rates ranging from 4.10% to 5.60%	\$ 2,775,000	\$ 185,000
\$3,000,000 1998, Series B, issued November 19, 1998, Virginia Public School Authority Bonds, due in annual installments of \$150,000 through July, 2019, interest at rates from 3.60% to 5.10%	1,350,000	150,000
\$1,500,000 1993, Series C, issued November 18, 1993, Virginia Public School Authority Bonds, due in annual installments from \$10,000 to \$105,000 through June 15, 2014, plus interest at 4.475% to 5.0%	70,000	30,000
Unamortized bond premium	<u>151,987</u>	<u>20,189</u>
Total general obligation school bonds	\$ 4,346,987	\$ 385,189
Capital lease	\$ <u>269,377</u>	\$ <u>24,439</u>
Total long-term debt	\$ <u><u>4,616,364</u></u>	\$ <u><u>409,628</u></u>

Capital Leases

The County has entered into a lease agreement for the purchase of outdoor ballfield lighting. The lease agreement qualifies as a capital lease for accounting purposes, and therefore has been recorded at the present value of its future minimum lease payments as of the inception date.

The carrying value of the asset acquired through the capital lease is as follows:

Outdoor ballfield lighting	\$ 410,813
Less accumulated depreciations	<u>(30,811)</u>
Total	<u><u>\$ 380,002</u></u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Capital Leases: (Continued)

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2011	\$ 37,883
2012	37,883
2013	37,883
2014	37,883
2015	37,883
2016-2019	<u>151,532</u>
Total minimum lease payments	\$ 340,947
Less: amounts representing interest	<u>(71,570)</u>
Present value of minimum lease payments	<u><u>\$ 269,377</u></u>

Federal Arbitrage Regulations:

The County is in compliance with federal arbitrage regulations. Any arbitrage amounts that may be required to be paid are not material to the financial statements.

NOTE 9—CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Claims, Judgments and Compensated Absences*, the County and its component unit School Board have accrued the liability arising from all outstanding claims, judgments and compensated absences. The liability for future vacation and sick leave benefits is accrued when such benefits meet the following conditions:

The County's policy is to pay accrued vacation and compensatory time upon termination. In general, any compensatory and vacation time earned is limited to a maximum of 30 days. School Board and Social Services employees are also paid accrued vacation upon termination, although the amount able to be earned is not capped. Social Services employees are also paid unused sick leave upon termination; such pay is limited to the lesser of 25% of the unused balance or \$2,500.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 9—CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES: (CONTINUED)

Because the timing of the settlement of the liability for compensated absences is not estimable, the amount of vacation and sick pay not currently payable by the governmental funds is recorded as a current liability in the government-wide financial statements.

The balances at June 30, 2010 are:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Primary Government:			
Governmental activities	\$ 202,693	\$ 17,097	\$ 219,790
Component Unit School Board	\$ 81,769	\$ 1,797	\$ 83,566

NOTE 10—DEFINED BENEFIT PENSION PLAN:

The County and Component Unit School Board participate in the Virginia Retirement System defined benefit pension plan.

Plan Description:

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living 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 local law enforcement officers, firefighters, and sheriffs 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.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. This 5.00% member contribution may be and has been assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The County and School Board non-professional employee contribution rates for the fiscal year ended 2010 were 8.91% and 6.13% of annual covered payroll, respectively.

Annual Pension Cost:

For fiscal year 2010, the County’s annual pension cost of \$227,994 (does not include the employee share assumed by the County which was \$127,943) was equal to the County’s required and actual contributions.

For fiscal year 2010, the County School Board’s annual pension cost for the Board’s non-professional employees was \$34,760 (does not include the employee share assumed by the Board which was \$28,352) which was equal to the Board’s required and actual contributions.

Three-Year Trend Information for the County and the School Board

	Fiscal Year Ending	Annual Pension Cost (APC)¹	Percentage of APC Contributed	Net Pension Obligation
County	June 30, 2008	\$ 189,529	100%	\$ -
	June 30, 2009	231,208	100%	-
	June 30, 2010	227,994	100%	-
School Board Non Professional Employees	June 30, 2008	\$ 40,035	100%	\$ -
	June 30, 2009	37,304	100%	-
	June 30, 2010	34,760	100%	-

¹Employer portion only

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the County’s and the County School Board’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County’s and School Board’s unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Funded Status and Funding Progress (Continued)

As of June 30, 2009, the most recent actuarial valuation date, the County School Board's plan was 92.17% funded. The actuarial accrued liability for benefits was \$2,183,314, and the actuarial value of assets was \$2,012,281, resulting in an unfunded actuarial accrued liability (UAAL) of \$171,033. The covered payroll (annual payroll of active employees covered by the plan) was \$570,905, and ratio of the UAAL to the covered payroll was 29.96%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Discretely Presented Component Unit School Board:

Professional Employees:

Plan Description

The Rappahannock County School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia 1950, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. That report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the Rappahannock County School Board 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 Rappahannock County School Board's contribution rate for the fiscal year ended 2010 was 8.81% of annual covered payroll. The School Board's contributions to VRS for the years ending June 30, 2010, 2009, and 2008 were \$384,271, \$465,578, and \$539,890, respectively, and equal to the required contributions for each year.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 11—EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

In fiscal year ending June 30, 2010, Special Revenue Fund expenditures exceeded appropriations by \$6,976.

NOTE 12—DEFERRED REVENUE:

	<u>Government-wide Statements Governmental Activities</u>	<u>Balance Sheet Governmental Funds</u>
Primary Government:		
Deferred property tax revenue:		
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ -	\$ 768,829
Deferred revenue representing notes receivable for which asset recognition criteria has not been met. The note receivable is not available for the funding of current expenditures.	-	437,772
Prepaid property taxes have been recorded as deferred revenue. Prepaid taxes collected are available for the funding of current expenditures.	<u>13,587</u>	<u>13,587</u>
Total primary government	\$ <u><u>13,587</u></u>	\$ <u><u>1,220,188</u></u>

The component unit School Board had no deferred revenue.

NOTE 13—COMMITMENTS AND CONTINGENCIES:

Primary Government and Component Unit School Board:

Federal programs in which the County participates were audited in accordance with the provisions of U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 13—COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Lease Commitments:

The County leases office space from various lessors. The future minimum amounts due for operating leases with terms exceeding one year are as follows:

	<u>Fiscal Year</u>	
2011	\$	38,990
2012		<u>6,530</u>
Total	\$	<u><u>45,520</u></u>

Rent expenditures totaled \$76,929 for fiscal 2010.

NOTE 14—LITIGATION:

At June 30, 2010 there are matters of litigation pending against the County. Counsel is of the opinion that no claim for damages will be awarded.

NOTE 15—SURETY BONDS:

Virginia Department of Risk Management & Surety		
Margaret R. Ralph, Clerk of the Circuit Court	\$	365,000
Frances A. Foster, Treasurer		300,000
Beverly S. Atkins, Commissioner of the Revenue		3,000
Connie Smith, Sheriff		30,000
Above constitutional officers' employees - blanket bond		50,000
Melbry Paratore, Clerk of the School Board		10,000
Aldridge Boone, Superintendent		10,000
United States Fidelity and Guaranty Company - Surety		
All Department of Social Services Employees - blanket bond		100,000
Peter H. Luke - Surety		
S. Bryant Lee, Supervisor		1,000
Geneva C. Welsh - Surety		
Roger A. Welch		1,000
Cathy W. Frazier - Surety		
Ronald L. Frazier, Supervisor		1,000
Susan Hoffman - Surety		
Mike Biniek, Supervisor		1,000
Caroline Parrish, Surety		
Chris Parrish, Supervisor		1,000

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 16—RISK MANAGEMENT:

The primary government and its component units are exposed to various, risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; workers' compensation claims and natural disasters.

The County contracts with the Virginia Association of Counties Municipal Liability Pool to provide for insurance coverages for these risks of loss. In the event of a loss deficit and depletion of all assets and available insurance of the Pool, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The property coverage is for specific amounts based on values assigned to the insured properties. Liability coverage is for \$3,000,000.

The School Board contracts with private insurers for property and liability coverages. Property coverages are for specific property values and liability coverages are \$20,864,130 and \$2,000,000, respectively.

Unemployment Insurance:

The County and School Board are responsible for unemployment claims. The Virginia Employment Commission bills the County for all unemployment claims.

Employee Health Insurance:

The County and School Board have contracted with a private carrier for health insurance coverages.

Other:

The County and its component units have had no reductions in insurance coverages from the prior year. There have been no settlements in excess of insurance coverages for the past three years, other than the payment of deductibles which are immaterial.

NOTE 17—ACCRUED LANDFILL REMEDIATION COST:

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,230,842 reported as landfill closure and postclosure care liability at June 30, 2010, represents the cumulative amount reported based on the use of 100% of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The landfill was closed in December 2007.

The County has demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

The County has entered into a Solid Waste Service Agreement with the County of Culpeper ("Culpeper") that permits the County to use Culpeper's transfer station for refuse disposal at an established rate per ton. In fiscal 2008, the County paid a one-time fee of \$62,215 to Culpeper as consideration for entering into the contract.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 18—INTERGOVERNMENTAL AGREEMENTS:

In July 2007, the County entered into a Solid Waste Service Agreement with the County of Culpeper (“Culpeper”) that permits the County to use Culpeper’s transfer station for refuse disposal at an established rate per ton. In fiscal 2010, the County paid Culpeper \$289,966 in connection with the agreement.

In November 2008, the County entered into a Shared Use of Public-Safety System Facilities Agreement with Culpeper so that the County can share the use of public safety radio equipment and infrastructure located in Culpeper. As part of the agreement, the County was required to purchase certain equipment and modify the existing communication tower. In addition, the agreement stipulates that the County will annually reimburse Culpeper for 7% of costs for maintenance of the system.

In March 2009, the County entered into an Agreement for Shared Use of Public Safety Radio System with the County of Fauquier (“Fauquier”). The agreement permits the County to utilize Fauquier’s 800 MHz radio system network, which is interconnected with similar facilities in Culpeper. The term of the agreement is five years with a renewal option for an additional five years. Under the terms of the agreement, the County is required to pay a stipulated fee for each radio owned by the County and connected to Fauquier’s radio network.

NOTE 19—RELATED PARTY TRANSACTIONS:

The County pays the payroll for the Water and Sewer Authority, which then reimburses the County for the costs. The County recorded \$75,520 of such reimbursements in fiscal 2010.

NOTE 20—DEFERRED COMPENSATION PLAN:

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan assets are not subject to claims from the County’s general creditors.

NOTE 21 - OTHER POST EMPLOYMENT BENEFITS PROGRAM:

Discretely Presented Component Unit-School Board:

Plan Description

The plan provides 50% of the single subscriber premium for employees who retire with either (1) unreduced retirement benefit from the Virginia Retirement System (VRS), or (2) the sum of years of service plus age equals 90 or more.

The eligibility requirements for an unreduced retirement benefit from VRS are:

- (a) Age 65 with 5 years of service, or
- (b) Age 50 with 30 years of service.

Employees who are eligible for disability retirement under VRS are also eligible for the RCPS retiree medical plan. There is no post age 65 coverage except through COBRA. Spouses and family members are allowed in the plan until they reach age 65 but the retiree must pay the full cost of the additional coverage.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 21 - OTHER POST EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

Discretely Presented Component Unit-School Board: (Continued)

Funding Policy

These benefits are financed on a pay-as-you-go basis.

An actuarial valuation was performed as of September 1, 2009 to determine Net OPEB obligation. The plan is not funded. The valuation used the projected unit cost method, with linear pro-ration to assumed benefit commencement.

Annual OPEB Cost and Net OPEB Obligation

The Rappahannock County Public School's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Rappahannock County Public School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Rappahannock County Public School's net OPEB obligation.

Annual required contribution	\$ 113,000
Contributions made	<u>(32,000)</u>
Increase (decrease) in net OPEB obligation	81,000
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 81,000</u></u>

The Rappahannock County Public School's (RCPS) annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2010 was as follows

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 113,000	28%	\$ 81,000

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The unfunded actuarial accrued liability (UAAL) in \$998,000. The covered payroll (annual payroll of active employees covered by the plan) was \$507,905 and the ratio of the UAAL to the covered payroll was 174.81% percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 21 - OTHER POST EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

Discretely Presented Component Unit-School Board: (Continued)

Funded Status and Funding Progress: (Continued)

assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is expected long-term investment return on the employer's own investments. We also assumed an annual healthcare cost trend rate of 8.5% initially, gradually decreasing over time. By 2030 the rate of increase is 6.5%, and by 2050, 5.8%. The ultimate trend rate is 5.2%. The rates include a 3.2% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

NOTE 22 - HEALTH INSURANCE CREDIT PROGRAM:

Plan Description

The County and Component Unit School Board participate in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the County or Component Unit School Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as are previously discussed in Note 10.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 22 - HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

Funding Policy

As a participating local political subdivision, the County and Component Unit School Board are required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The County and Component Unit School Board non-professional employees contribution rates for the fiscal year ended 2010 were 1.176% and .06% of annual covered payroll, respectively.

OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the annual required contribution (ARC). The County and Component Unit School Board are required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2010, the County and Component Unit School Board non-professional employee's contributions of \$1,535 and \$6,634, respectively, were equal to the ARC and OPEB cost. The County and the Component Unit School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the preceding year are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)¹</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
County	June 30, 2009	\$ 1,557	100%	\$ -
	June 30, 2010	1,535	100%	-
School Board Non Professional Employees	June 30, 2009	\$ 7,120	100%	\$ -
	June 30, 2010	6,634	100%	-

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

	<u>County</u>	<u>School Board Non Professional Employees</u>
Actuarial accrued liability (AAL)	\$ 21,830	\$ 77,376
Actuarial value of plan assets	\$ 18,115	\$ 25,205
Unfunded actuarial accrued liability (UAAL)	\$ 3,715	\$ 52,171
Funded ration (actuarial value of plan assets/AAL)	82.98%	32.57%
Covered payroll (active plan members)	\$ 2,601,412	\$ 570,905
UAAL as a percentage of covered payroll	0.14%	9.14%

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Financial Statements
June 30, 2010 (Continued)

NOTE 22 - HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

Funded Status and Funding Progress: (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2009 was 27 years.

Professional Employees - Discretely Presented Component Unit School Board

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.04% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2010, 2009, and 2008 were \$56,615, \$57,075, and \$60,803, respectively and equaled the required contributions for each year.

Required Supplementary Information

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Property taxes:				
Real property taxes	\$ 9,455,000	\$ 9,455,000	\$ 9,360,886	\$ (94,114)
Real and personal public service corporation property taxes	180,000	180,000	124,939	(55,061)
Personal property taxes	1,556,000	1,556,000	1,456,643	(99,357)
Mobile home taxes	300	300	421	121
Penalties	78,500	78,500	85,801	7,301
Interest	56,000	56,000	75,148	19,148
Total property taxes	<u>\$ 11,325,800</u>	<u>\$ 11,325,800</u>	<u>\$ 11,103,838</u>	<u>\$ (221,962)</u>
Other local taxes:				
Local sales and use taxes	\$ 410,000	\$ 410,000	\$ 420,378	\$ 10,378
Consumers' utility taxes	185,600	185,600	166,241	(19,359)
Gross receipts tax	34,700	34,700	39,015	4,315
Motor vehicle licenses	174,000	174,000	154,309	(19,691)
Cable TV franchise fees	17,600	17,600	-	(17,600)
Bank franchise taxes	4,500	4,500	43,499	38,999
Taxes on recordation of wills	100,000	100,000	90,912	(9,088)
Additional tax on deeds	32,500	32,500	23,074	(9,426)
Meals and lodging taxes	135,000	135,000	122,671	(12,329)
Total other local taxes	<u>\$ 1,093,900</u>	<u>\$ 1,093,900</u>	<u>\$ 1,060,099</u>	<u>\$ (33,801)</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 7,600	\$ 7,600	\$ 8,203	\$ 603
Land use application fees	5,100	5,100	86,892	81,792
Building and related permits	85,000	85,000	56,472	(28,528)
Transfer fees	400	400	305	(95)
Other permits and fees	500	500	7,375	6,875
Total permits, privilege fees and regulatory licenses	<u>\$ 98,600</u>	<u>\$ 98,600</u>	<u>\$ 159,247</u>	<u>\$ 60,647</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 42,500	\$ 42,500	\$ 95,275	\$ 52,775
Revenue from use of money and property:				
Revenue from use of money	\$ 126,000	\$ 126,000	\$ 58,644	\$ (67,356)
Revenue from use of property	19,500	19,500	7,739	(11,761)
Total revenue from use of money and property	<u>\$ 145,500</u>	<u>\$ 145,500</u>	<u>\$ 66,383</u>	<u>\$ (79,117)</u>

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Charges for services:				
Sheriff fees	\$ 2,000	\$ 2,000	\$ 26,840	\$ 24,840
Charges for Commonwealth's Attorney	290	290	212	(78)
Charges for Animal Warden fees	200	200	-	(200)
Charges for concealed weapons fees	1,600	1,600	3,207	1,607
Charges for law library	750	750	914	164
Charges for courthouse security fees	33,000	33,000	33,891	891
Charges for courthouse maintenance fees	7,100	7,100	6,919	(181)
Other jail charges	-	-	2,771	2,771
Charges for inmate telephone system	10,000	10,000	1,881	(8,119)
Charges for landfill fees	25,000	25,000	18,521	(6,479)
Total charges for services	\$ 79,940	\$ 79,940	\$ 95,156	\$ 15,216
Miscellaneous:				
VPA refunds	-	-	14,228	14,228
Donation of real property	37,883	37,883	37,883	-
Donation from Scrabble School Foundation	-	50,000	50,000	-
National fish and wildlife grant	-	-	10,000	10,000
Miscellaneous	106,813	153,813	132,624	(21,189)
Total miscellaneous	\$ 144,696	\$ 241,696	\$ 244,735	\$ 3,039
Recovered costs:				
Commonwealth jail costs	\$ 52,500	\$ 52,500	\$ 61,404	\$ 8,904
Cobra Insurance	-	-	4,872	4,872
Fire department	-	-	21,070	21,070
Town of Washington elections	-	-	3,421	3,421
Water and sewer authority	81,000	81,000	72,520	(8,480)
Total recovered costs	\$ 133,500	\$ 133,500	\$ 163,287	\$ 29,787
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 2,079	\$ 2,079	\$ 915	\$ (1,164)
Spay/Neuter License Revenue	-	-	45	45
Rolling stock tax	1,100	1,100	90	(1,010)
Communications sales and use tax	390,000	390,000	363,155	(26,845)
Reduction in aid to localities	(55,696)	(55,696)	(55,696)	-
Personal property tax relief	945,600	945,600	945,168	(432)
Total noncategorical aid	\$ 1,283,083	\$ 1,283,083	\$ 1,253,677	\$ (29,406)

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Revenue from the Commonwealth (continued):				
Categorical aid:				
Shared Expenses:				
Commonwealth's attorney	\$ 139,017	\$ 139,017	\$ 159,252	\$ 20,235
Sheriff	659,013	659,013	701,016	42,003
Commissioner of the Revenue	70,100	70,100	77,890	7,790
Treasurer	70,100	70,100	76,543	6,443
Registrar/electoral board	38,100	38,100	32,844	(5,256)
Clerk of the Circuit Court	142,015	142,015	161,893	19,878
Total shared expenses	\$ 1,118,345	\$ 1,118,345	\$ 1,209,438	\$ 91,093
Welfare:				
Welfare administration and assistance	\$ 126,400	\$ 126,400	\$ 197,710	\$ 71,310
Other categorical aid:				
Abandoned vehicles	\$ 1,600	\$ 1,600	\$ 32,057	\$ 30,457
Emergency medical service	8,250	8,250	8,406	156
Wireless grant	152,838	187,676	70,660	(117,016)
Litter control	4,350	4,350	5,463	1,113
Juvenile Comm. Crime Control	12,500	12,500	12,522	22
Local law enforcement block grant	350	350	-	(350)
Farmland preservation program	49,000	49,000	-	(49,000)
Recordation taxes	42,000	42,000	39,261	(2,739)
At-risk grant	223,000	223,000	349,529	126,529
Fire programs	42,000	42,000	18,760	(23,240)
Water quality improvement grant	25,000	25,000	26,981	1,981
Clean streams program	60,000	60,000	-	(60,000)
DMV - Animal friendly plates	-	-	289	289
Total other categorical aid	\$ 620,888	\$ 655,726	\$ 563,928	\$ (91,798)
Total categorical aid	\$ 1,865,633	\$ 1,900,471	\$ 1,971,076	\$ 70,605
Total revenue from the Commonwealth	\$ 3,148,716	\$ 3,183,554	\$ 3,224,753	\$ 41,199
Revenue from the Federal Government:				
Payments in lieu of taxes	\$ 45,300	\$ 45,300	\$ 76,152	\$ 30,852
Categorical aid:				
Welfare:				
Administration and public assistance	\$ 502,300	\$ 502,300	\$ 415,084	\$ (87,216)

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (Continued):				
Revenue from the Federal Government (continued):				
Other categorical aid:				
Law enforcement grants	\$ 12,200	\$ 12,200	\$ 51,611	\$ 39,411
Drug forfeitures	4,000	4,000	-	(4,000)
Total other categorical aid	\$ 16,200	\$ 16,200	\$ 51,611	\$ 35,411
Total categorical aid	\$ 518,500	\$ 518,500	\$ 466,695	\$ (51,805)
Total revenue from the Federal Government	\$ 563,800	\$ 563,800	\$ 542,847	\$ (20,953)
Total revenues	\$ 16,776,952	\$ 16,908,790	\$ 16,755,620	\$ (153,170)
Expenditures				
Current:				
General government administration:				
Board of supervisors	\$ 106,629	\$ 106,629	\$ 90,685	\$ 15,944
County administrator	253,293	253,293	256,078	(2,785)
Legal services	75,592	75,592	77,314	(1,722)
Independent auditor	40,500	40,500	50,378	(9,878)
Commissioner of the Revenue	228,088	228,088	219,260	8,828
Board of assessors	129,500	129,500	146,018	(16,518)
Treasurer	240,763	240,763	228,331	12,432
Land use administration	16,230	16,230	14,126	2,104
Electoral board and officials	33,475	33,475	24,624	8,851
Registrar	102,591	102,591	84,803	17,788
Total general government administration	\$ 1,226,661	\$ 1,226,661	\$ 1,191,617	\$ 35,044
Judicial administration:				
Circuit court	\$ 12,150	\$ 12,150	\$ 9,548	\$ 2,602
General district court	11,650	11,650	3,205	8,445
Commissioner of accounts	1,510	1,510	1,384	126
Magistrates	3,700	3,700	2,367	1,333
Juvenile probation service unit	54,400	54,400	59,993	(5,593)
Clerk of the circuit court	283,619	283,619	246,987	36,632
Law library	600	600	-	600
Commonwealth attorney	226,343	226,343	221,582	4,761
Total judicial administration	\$ 593,972	\$ 593,972	\$ 545,066	\$ 48,906

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Continued):				
Public safety:				
Sheriff	\$ 942,630	\$ 973,666	\$ 918,019	\$ 55,647
Contributions to fire departments and rescue squads	649,600	711,157	612,786	98,371
Forest fire extinction	5,523	5,523	8,611	(3,088)
Jail	1,104,452	1,104,452	967,287	137,165
Building inspector	116,994	143,236	105,243	37,993
Animal control	175,771	175,771	172,317	3,454
Medical examiner	850	850	80	770
Emergency services	140,098	140,098	117,314	22,784
E-911	261,605	271,605	144,867	126,738
Total public safety	\$ 3,397,523	\$ 3,526,358	\$ 3,046,524	\$ 479,834
Public works:				
Landfill	\$ 841,290	\$ 841,290	\$ 697,628	\$ 143,662
General properties	517,129	517,129	449,667	67,462
Aileen property	7,950	7,950	2,547	5,403
Total public works	\$ 1,366,369	\$ 1,366,369	\$ 1,149,842	\$ 216,527
Health and welfare:				
Health department	\$ 152,018	\$ 152,018	\$ 122,018	\$ 30,000
Rappahannock-Rapidan Community Services Board	38,356	38,356	38,356	-
Public assistance and administration	648,214	648,214	966,320	(318,106)
Comprehensive Services Act	425,000	425,000	574,763	(149,763)
Total health and welfare	\$ 1,263,588	\$ 1,263,588	\$ 1,701,457	\$ (437,869)
Education:				
Community college	\$ 6,864	\$ 6,864	\$ 6,864	-
Appropriation to public school system	7,968,916	7,999,990	7,761,171	238,819
Total education	\$ 7,975,780	\$ 8,006,854	\$ 7,768,035	\$ 238,819
Parks, recreation and cultural:				
Park authority and others	\$ 18,000	\$ 18,000	\$ 9,500	\$ 8,500
Ballfield lights	-	-	-	-
Total parks, recreation and cultural	\$ 18,000	\$ 18,000	\$ 9,500	\$ 8,500

Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (Continued):				
Community development:				
Planning commission	\$ 47,334	\$ 142,829	\$ 21,278	\$ 121,551
Board of zoning appeals	5,700	5,700	3,117	2,583
Soil and water conservation district	12,373	12,373	6,187	6,186
VPI Extension Service	88,343	88,343	80,687	7,656
Public utility services	81,000	81,000	71,014	9,986
Farmland preservation program	100,000	100,000	195	99,805
Water quality improvement program	40,000	40,000	35,047	4,953
Civil War Trails project	4,500	44,000	48,929	(4,929)
Tourism promotion	49,700	55,950	58,905	(2,955)
Total community development	<u>\$ 428,950</u>	<u>\$ 570,195</u>	<u>\$ 325,359</u>	<u>\$ 244,836</u>
Capital projects:				
Scrabble School project	\$ 49,400	\$ 69,400	\$ 3,912	\$ 65,488
	<u>\$ 49,400</u>	<u>\$ 69,400</u>	<u>\$ 3,912</u>	<u>\$ 65,488</u>
Debt service:				
Principal	\$ 400,623	\$ 400,623	\$ 400,623	-
Interest and fiscal charges	227,442	227,442	227,441	1
Total debt service	<u>\$ 628,065</u>	<u>\$ 628,065</u>	<u>\$ 628,064</u>	<u>\$ 1</u>
Total expenditures	<u>\$ 16,948,308</u>	<u>\$ 17,269,462</u>	<u>\$ 16,369,376</u>	<u>\$ 900,086</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (171,356)</u>	<u>\$ (360,672)</u>	<u>\$ 386,244</u>	<u>\$ 746,916</u>
Other financing sources (uses):				
Transfers out	\$ (115,445)	\$ (115,445)	\$ (115,445)	-
Insurance recoveries	-	-	2,999	(2,999)
Total other financing sources (uses)	<u>\$ (115,445)</u>	<u>\$ (115,445)</u>	<u>\$ (112,446)</u>	<u>\$ (2,999)</u>
Net change in fund balance	\$ (286,801)	\$ (476,117)	\$ 273,798	\$ 743,917
Fund balance, beginning of year	<u>286,801</u>	<u>476,117</u>	<u>5,396,373</u>	<u>4,920,256</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,670,171</u>	<u>\$ 5,670,171</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Schedule of Pension Funding Progress
As of June 30, 2010

PRIMARY GOVERNMENT:

County Retirement Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
County:						
June 30, 2007	\$ 6,818,834	\$ 7,643,951	\$ 825,117	89.21%	\$ 2,489,252	33.15%
June 30, 2008	7,746,303	8,421,188	674,885	91.99%	2,546,810	26.50%
June 30, 2009	8,196,660	9,308,064	1,111,404	88.06%	2,601,412	42.72%

DISCRETELY PRESENTED COMPONENT UNIT:

School Board Non-Professional Retirement Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
June 30, 2007	\$ 1,863,130	\$ 1,910,991	\$ 47,861	97.50%	\$ 601,537	7.96%
June 30, 2008	2,032,115	2,128,959	96,844	95.45%	620,701	15.60%
June 30, 2009	2,012,281	2,183,314	171,033	92.17%	570,905	29.96%

Schedule of OPEB Funding Progress
As of June 30, 2010

DISCRETELY PRESENTED COMPONENT UNIT:

School Board OPEB Plan

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2009	\$ -	\$ 998,000	\$ 998,000	0.00%	\$ 570,905	174.81%

School Board Health Insurance Credit Program

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
September 30, 2009	\$ 25,205	\$ 77,376	\$ 52,171	32.57%	\$ 570,905	9.14%
September 30, 2008	30,641	81,596	50,955	37.55%	620,701	8.21%
September 30, 2007	8,807	98,420	89,613	8.95%	601,537	14.90%

Other Supplementary Information

Agency Fund
 Statement of Changes in Assets and Liabilities
 Year Ended June 30, 2010

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Special Welfare Fund				
Assets				
Cash and cash equivalents	\$ 20,560	\$ 9,858	\$ 10,418	\$ 20,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Amounts held for others	\$ 20,560	\$ 9,858	\$ 10,418	\$ 20,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Revenue and Expenditures Budgetary Comparison Schedule
 For Nonmajor Fund With Legally Adopted Budget
 Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Special Revenue Fund:				
Library Fund:				
Revenues:				
Fines and forfeitures	\$ 2,500	\$ 2,500	\$ 1,491	\$ (1,009)
Use of money and property	24,826	24,826	71,638	46,812
Charges for services	2,300	2,300	7,404	5,104
Miscellaneous	1,200	1,200	733	(467)
Intergovernmental:				
Revenue from the Commonwealth	<u>32,000</u>	<u>32,000</u>	<u>33,886</u>	<u>1,886</u>
Total revenues	<u>\$ 62,826</u>	<u>\$ 62,826</u>	<u>\$ 115,152</u>	<u>\$ 52,326</u>
Expenditures:				
Parks, Recreation and Cultural:				
Library administration	<u>\$ 178,271</u>	<u>\$ 178,271</u>	<u>\$ 185,247</u>	<u>\$ (6,976)</u>
Total expenditures	<u>\$ 178,271</u>	<u>\$ 178,271</u>	<u>\$ 185,247</u>	<u>\$ (6,976)</u>

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Component Unit School Board
 Combining Balance Sheet
 At June 30, 2010

	<u>School Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 1,022,177	\$ 35,585	\$ 1,057,762
Accounts receivable	41,071	-	41,071
Prepays	215,256	-	215,256
Inventory	-	8,324	8,324
Due from other governments	192,128	-	192,128
	<u>1,470,632</u>	<u>43,909</u>	<u>1,514,541</u>
Total assets	\$ <u>1,470,632</u>	\$ <u>43,909</u>	\$ <u>1,514,541</u>
Liabilities:			
Accounts payable	\$ 31,470	\$ 25,585	\$ 57,055
Accrued liabilities	1,022,127	-	1,022,127
Due to primary government	417,035	-	417,035
	<u>1,470,632</u>	<u>25,585</u>	<u>1,496,217</u>
Total liabilities	\$ <u>1,470,632</u>	\$ <u>25,585</u>	\$ <u>1,496,217</u>
Fund Balance:			
Unreserved:			
Designated for school food operations	\$ -	\$ 18,324	\$ 18,324
Total fund balance	\$ -	\$ 18,324	\$ 18,324
Total liabilities and fund balance	\$ <u>1,470,632</u>	\$ <u>43,909</u>	\$ <u>1,514,541</u>

Component Unit School Board

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

At June 30, 2010

Total fund balances for governmental funds (Exhibit 13) \$ 18,324

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Construction in progress	\$	13,005	
Buildings and improvements, net of depreciation		8,062,282	
Equipment, net of depreciation		249,282	
School Board capital assets in primary government, net of depreciation		<u>(3,576,152)</u>	
 Total capital assets			 4,748,417

Liabilities applicable to the School Board's governmental activities which are not due and/or payable in the current period are not reported as fund liabilities. Balances of such liabilities affecting net assets are as follows:

Compensated absences	\$	(83,566)	
Other post employment benefits		<u>(81,000)</u>	
 Total			 <u>(164,566)</u>

Total net assets of governmental activities (Exhibit 1) \$ 4,602,175

Component Unit School Board
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2010

	<u>School Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Charges for services	\$ 49,047	\$ 231,204	\$ 280,251
Miscellaneous	99,499	1,593	101,092
Recovered costs	38,530	-	38,530
Intergovernmental:			
Appropriation from primary government	7,761,171	-	7,761,171
Revenue from the Commonwealth	2,165,967	8,216	2,174,183
Revenue from the Federal Government	561,966	144,410	706,376
Total revenues	<u>\$ 10,676,180</u>	<u>\$ 385,423</u>	<u>\$ 11,061,603</u>
Expenditures:			
Current:			
Education:			
Instruction	\$ 8,000,749	\$ -	\$ 8,000,749
Administration, attendance and health	757,630	-	757,630
Transportation	863,474	-	863,474
Facilities operations	1,012,715	-	1,012,715
School food services	9,675	418,711	428,386
Total expenditures	<u>\$ 10,644,243</u>	<u>\$ 418,711</u>	<u>\$ 11,062,954</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 31,937</u>	<u>\$ (33,288)</u>	<u>\$ (1,351)</u>
Other financing sources (uses):			
Transfers in	\$ -	\$ 31,937	\$ 31,937
Transfers out	<u>(31,937)</u>	<u>-</u>	<u>(31,937)</u>
Total other financing sources (uses)	<u>\$ (31,937)</u>	<u>\$ 31,937</u>	<u>\$ -</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (1,351)</u>	<u>\$ (1,351)</u>
Fund balance, beginning of year	<u>-</u>	<u>19,675</u>	<u>19,675</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 18,324</u></u>	<u><u>\$ 18,324</u></u>

Component Unit School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit 15) \$ (1,351)

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 and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (293,335)

School Board capital assets are jointly owned by the County and School Board. The County share of School Board capital assets is in proportion to the debt owed on such by the County. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship increased the transfers to the School Board. 303,398

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment consists of the following:

Compensated absences	\$	(1,797)	
Other post employment benefits		<u>(81,000)</u>	
 Total			 <u>(82,797)</u>
 Change in net assets of governmental activities (Exhibit 2)	 \$		 <u><u>(74,085)</u></u>

Component Unit School Board
 School Fund
 Budgetary Comparison Schedule
 Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Charges for services	\$ 46,064	\$ 46,064	\$ 49,047	\$ 2,983
Miscellaneous	37,385	81,369	99,499	18,130
Recovered costs	-	-	38,530	38,530
Intergovernmental:				
Appropriation from primary government	7,968,916	7,999,990	7,761,171	(238,819)
Revenue from the Commonwealth	2,523,213	2,531,500	2,165,967	(365,533)
Revenue from the Federal Government	486,257	867,474	561,966	(305,508)
Total revenues	<u>\$ 11,061,835</u>	<u>\$ 11,526,397</u>	<u>\$ 10,676,180</u>	<u>\$ (850,217)</u>
Expenditures:				
Current:				
Education:				
Instruction	\$ 8,314,773	\$ 8,748,261	\$ 8,000,749	\$ 747,512
Administration, attendance and health	754,087	754,087	757,630	(3,543)
Transportation	782,063	782,063	863,474	(81,411)
Facilities operations	1,095,359	1,126,433	1,012,715	113,718
School food services	115,553	115,553	9,675	105,878
Total expenditures	<u>\$ 11,061,835</u>	<u>\$ 11,526,397</u>	<u>\$ 10,644,243</u>	<u>\$ 882,154</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,937</u>	<u>\$ 31,937</u>
Other financing sources(uses):				
Transfers out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,937)</u>	<u>\$ (31,937)</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Statistical Tables

COUNTY OF RAPPAHANNOCK, VIRGINIA

Government-Wide Expenses by Function
Last Ten Fiscal Years (1)

<u>Fiscal Year</u>	<u>General Government Administration</u>	<u>Judicial Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Health and Welfare</u>
2003	\$ 753,529	\$ 302,855	\$ 1,778,431	\$ 566,439	\$ 1,243,316
2004	792,313	441,430	2,137,551	622,632	1,158,147
2005	780,315	541,437	2,505,482	982,749	1,273,404
2006	900,224	521,553	1,852,294	1,315,134	1,445,417
2007	1,830,994	511,111	2,871,045	909,018	1,573,437
2008	1,046,992	591,957	2,836,270	1,470,899	1,825,423
2009	1,033,528	613,997	3,020,094	995,784	1,742,545
2010	1,210,317	547,850	2,946,938	1,036,017	1,709,559

(1) Information has only been available for eight years.

Table 1

	<u>Education</u>	<u>Parks, Recreation, and Culture</u>	<u>Community Development</u>	<u>Interest on Debt</u>	<u>Total</u>
\$	5,410,559	\$ 155,622	\$ 283,894	\$ 169,248	\$ 10,663,893
	6,127,888	193,231	164,272	169,068	11,806,532
	5,410,672	294,374	216,432	251,368	12,256,233
	7,629,521	225,558	205,087	267,527	14,362,315
	7,592,542	228,443	270,722	248,210	16,035,522
	8,225,502	238,922	305,234	225,831	16,767,030
	8,391,601	241,583	639,789	203,690	16,882,611
	8,071,433	244,550	325,359	197,662	16,289,685

COUNTY OF RAPPAHANNOCK, VIRGINIA

Government-Wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	Program Revenues		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2003	\$ 172,510	\$ 1,893,568	\$ -
2004	283,165	2,110,482	-
2005	253,874	2,293,081	-
2006	308,467	2,324,731	-
2007	339,289	2,334,218	-
2008	276,758	2,558,265	-
2009	284,187	2,599,023	904,871
2010	358,573	2,471,657	-

(1) Information has only been available for eight years.

Table 2

General Revenues						
General Property Taxes	Other Local Taxes	Non- Categorical Aid	Revenues from the Use of Money & Property	Miscel- laneous	Gain (Loss) on Sale of Capital Assets	Total
\$ 6,384,537	\$ 1,227,194	\$ 915,004	\$ 80,301	\$ 75,151	\$ -	\$ 10,748,265
7,002,957	1,425,419	948,361	101,017	1,459,016	-	13,330,417
7,230,696	1,515,769	928,725	222,278	457,428	326,938	13,228,789
8,913,921	1,604,026	1,055,482	220,283	244,720	(17,503)	14,654,127
10,886,332	1,580,303	1,041,329	356,280	455,436	(18,215)	16,974,972
11,143,774	1,549,361	996,131	159,274	378,239	-	17,061,802
11,710,846	1,464,226	945,020	34,864	101,921	-	18,044,958
11,161,961	1,060,099	1,329,829	138,021	236,906	-	16,757,046

COUNTY OF RAPPAHANNOCK, VIRGINIA

General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property
2001	\$ 6,152,522	\$ 1,065,833	\$ 95,909	\$ 31,502	199,382
2002	6,181,199	1,134,925	119,704	31,586	91,917
2003	6,475,866	1,227,194	101,785	20,966	80,301
2004	6,962,108	1,425,419	182,622	25,076	101,017
2005	7,252,549	1,515,769	122,855	27,129	160,265
2006	8,922,135	1,604,026	104,884	35,203	220,283
2007	10,769,333	1,580,303	109,037	51,786	356,280
2008	11,117,838	1,549,361	85,455	62,669	159,274
2009	11,515,100	1,464,226	74,647	110,551	34,864
2010	11,103,838	1,060,099	159,247	96,766	138,021

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

Table 3

	Charges for Services	Miscel- laneous	Recovered Costs	Intergovern- mental	Total
\$	315,548	\$ 182,698	\$ 118,671	\$ 5,412,647	\$ 13,574,712
	379,345	146,850	172,144	6,092,858	14,350,528
	346,704	146,235	153,350	6,016,157	14,568,558
	411,137	150,721	126,615	6,299,225	15,683,940
	412,136	404,348	115,121	6,838,494	16,848,666
	500,171	306,576	155,701	7,068,091	18,917,070
	511,556	673,253	151,862	7,169,214	21,372,624
	457,042	578,031	144,501	7,055,659	21,209,830
	396,767	656,165	197,281	7,076,660	21,526,261
	382,811	346,560	201,817	6,682,045	20,171,204

COUNTY OF RAPPAHANNOCK, VIRGINIA

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare
2001	\$ 591,268	\$ 299,602	\$ 1,639,102	\$ 1,078,839	\$ 963,456
2002	702,492	320,180	1,785,509	721,294	1,060,541
2003	727,514	299,855	1,843,527	600,101	1,236,877
2004	764,343	438,430	2,176,138	664,326	1,156,777
2005	755,336	538,437	2,593,938	1,008,199	1,286,840
2006	861,878	519,428	2,330,775	1,298,423	1,439,241
2007	973,963	509,861	2,845,226	941,178	1,571,805
2008	1,038,743	580,762	2,917,462	1,141,193	1,833,125
2009	1,007,173	622,691	3,552,041	1,759,004	1,734,396
2010	1,191,617	545,066	3,046,524	1,149,842	1,701,457

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

(2) Includes capital projects

(3) Excludes appropriation to School Board from General Fund

Table 4

	(2) Recreation and Cultural	Community Development	Capital Projects	Debt Service	Total
(2)(3) Education					
\$ 9,033,172	\$ 121,374	\$ 205,891	\$ -	\$ 776,056	\$ 14,708,760
8,628,596	127,556	218,265	-	752,974	14,317,407
8,640,009	133,122	279,519	-	732,574	14,493,098
9,433,125	170,731	159,897	-	465,809	15,429,576
10,873,307	271,874	216,432	-	446,606	17,990,969
10,589,127	203,058	205,087	3,036,686	829,571	21,313,274
11,214,843	205,943	270,722	853,263	766,866	20,153,670
11,701,595	523,193	305,234	25,558	738,345	20,805,210
11,443,784	612,863	639,789	590,991	709,557	22,672,289
11,069,818	194,747	325,359	3,912	628,064	19,856,406

Assessed Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Public Utility	
				Real Estate	Total
2001	\$ 570,360,388	\$ 45,413,501	\$ 47,100	\$ 22,861,719	\$ 638,682,708
2002	582,604,227	49,352,765	93,200	20,121,030	652,171,222
2003	598,037,881	51,198,229	90,340	20,047,407	669,373,857
2004	838,190,002	53,468,732	106,820	25,066,048	916,831,602
2005	854,565,241	53,296,516	48,420	21,791,439	929,701,616
2006	875,497,928	59,300,910	38,220	18,594,932	953,431,990
2007	1,532,668,500	64,060,764	42,350	23,487,235	1,620,258,849
2008	1,559,835,500	64,527,171	98,320	22,028,458	1,646,489,449
2009	1,586,404,700	66,839,796	139,820	19,199,054	1,672,583,370
2010	1,603,162,900	56,473,495	86,120	21,541,208	1,681,263,723

(1) 100% fair market value

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	(1) Total Tax Levy	(1) (2) Current Tax Collections	Percent of Levy Collected	(1) Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	(1) Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2001	\$ 6,542,855	\$ 6,266,110	96%	\$ 259,389	\$ 6,525,499	100%	\$ 46,653	1%
2002	6,955,273	6,661,421	96%	229,636	6,891,057	99%	75,270	1%
2003	6,951,283	6,885,776	99%	226,725	7,112,501	102%	83,067	1%
2004	7,775,425	7,490,369	96%	150,703	7,641,072	98%	72,060	1%
2005	8,034,264	7,796,041	97%	183,397	7,979,438	99%	75,020	1%
2006	9,673,554	9,638,617	100%	155,649	9,794,266	101%	126,363	1%
2007	11,745,823	11,467,475	98%	123,631	11,591,106	99%	125,869	1%
2008	12,080,193	11,774,838	97%	195,203	11,970,041	99%	175,759	1%
2009	12,485,860	11,082,994	89%	330,551	11,413,546	91%	276,912	2%
2010	11,638,535	11,253,240	97%	-	11,253,240	97%	385,296	3%

(1) Exclusive of penalties and interest.

(2) Includes personal property tax reimbursements from the Commonwealth of \$529,894, \$839,751, \$864,564 \$889,829, \$866,537, \$1,006,611, \$946,195, \$945,168, \$949,690 and 893,784 for fiscal years 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010 respectively.

Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Years	Real Estate	Personal Property	Mobile Homes	Public Utility
2001	0.86	3.20	0.86	0.86
2002	0.89	3.20	0.89	0.89
2003	0.85	3.00	0.85	0.85
2004	0.66	3.00	0.66	0.66
2005	0.68	3.00	0.68	0.68
2006	0.76	4.00	0.76	0.76
2007	0.54	4.00	0.54	0.54
2008	0.59	4.20	0.59	0.59
2009	0.55	4.00	0.55	0.55
2010	0.53	4.00	0.53	0.53

(1) Per \$100 of assessed value, including fire levy

Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Bonded Debt (3)	Ratio of General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
2001	6,983	\$ 638,682,708	\$ 4,023,000	1%	\$ 576
2002	6,983	652,171,222	3,697,000	1%	529
2003	6,983	669,373,857	3,381,000	1%	484
2004	6,983	916,831,602	3,070,000	0%	440
2005	6,983	929,701,616	6,484,000	1%	929
2006	7,271	953,431,990	5,998,000	1%	825
2007	7,203	1,620,258,849	5,739,217	0%	797
2008	7,203	1,646,489,449	5,238,175	0%	727
2009	7,203	1,672,583,370	4,743,772	0%	659
2010	7,035	1,681,263,723	4,346,987	0%	618

(1) Bureau of the Census

(2) From Table 5

(3) Includes all long-term general obligation bonded debt and Literary Fund Loans.
Excludes compensated absences, revenue bonds and landfill obligations.

Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service (2)</u>	<u>Total General Governmental Expenditures (1)</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
2001	\$ 331,000	\$ 199,401	\$ 530,401	\$ 14,708,760	4%
2002	326,000	183,756	509,756	14,317,407	4%
2003	316,000	169,246	485,246	14,493,098	3%
2004	311,000	154,809	465,809	15,429,576	3%
2005	306,000	140,606	446,606	17,990,969	2%
2006	486,000	343,571	829,571	21,313,274	4%
2007	481,000	285,866	766,866	20,153,670	4%
2008	476,000	262,345	738,345	20,805,210	4%
2009	471,000	238,557	709,557	22,672,289	3%
2010	400,623	227,441	628,064	19,856,406	3%

(1) Includes General, School Construction, and Special Revenue Funds and Component Unit School Board

(2) Includes all general obligation debt. Does not include revenue bonds.

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Members of the Board of Supervisors County of Rappahannock, Virginia

We have audited the financial statements of the governmental activities, the discretely presented component units, the major fund, and the aggregate remaining fund information of the County of Rappahannock, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the County of Rappahannock, Virginia's basic financial statements and have issued our report thereon dated January 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County of Rappahannock, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Rappahannock, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Rappahannock, Virginia's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Rappahannock, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain other matters that we reported to management of County of Rappahannock, Virginia in a separate letter dated January 13, 2011.

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

This report is intended solely for the information and use of management, the Board of Supervisors 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.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
January 13, 2011

**Report on Compliance with Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133
Independent Auditors' Report**

**The Honorable Members of the Board of Supervisors
County of Rappahannock, Virginia**

Compliance

We have audited the County of Rappahannock, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The County of Rappahannock, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of Rappahannock, Virginia's management. Our responsibility is to express an opinion on the County of Rappahannock, Virginia's compliance based on our audit.

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

In our opinion, the County of Rappahannock, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of County of Rappahannock, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered County of Rappahannock, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Rappahannock, Virginia's internal control over compliance.

Internal Control Over Compliance: (Continued)

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, Board of Supervisors, 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.

Robinson, James, Cox Associates

Charlottesville, Virginia
January 13, 2011

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Pass - through payments:			
State Department of Agriculture:			
Food distribution	10.555	10.555/2010	\$ 12,911
Department of Social Services:			
SNAP Cluster:			
State Administrative Matching Grants for Nutrition Assistance Program	10.561	0010109/0010110	89,665
ARRA -- State Administrative Matching Grants for Nutrition Assistance Program	10.561	0040109/0040110	2,250
Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	10.553/2010	27,176
National School Lunch Program	10.555	10.555/2010	<u>104,323</u>
Total Department of Agriculture			\$ <u>236,325</u>
Department of Health and Human Services:			
Pass - through payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	0950109/0950110	\$ 7,023
Temporary Assistance for Needy Families (TANF)	93.558	0400109/0400109	62,744
Refugee And Entrant Assistance -- State Administered Programs	93.566	0500109/0500110	229
Low-Income Home Energy Assistance	93.568	0600409/0600410	3,863
Child Welfare Services - State Grants	93.645	0900109/0900110	228
Foster Care - Title IV-E	93.658	1100109/1100110	73,642
ARRA -- Foster Care - Title IV-E	93.658	1100109/1100110	4,767
Adoption Assistance	93.659	1120109/1120110	6,747
ARRA -- Adoption Assistance	93.659	1120109/1120110	388
Social Services Block Grant	93.667	1000109/1000110	31,485
Chafee Foster Care Independence Program	93.674	9150109/9150110	1,451
Children's Health Insurance Program	93.767	0540109/0540110	4,088
Medical Assistance Program	93.778	1200109/1200110	53,206
CCDF Cluster:			
Child Care and Development Block Grant	93.575	0770109/0770110	45,812
ARRA -- Child Care and Development Block Grant	93.713	0740109/0780109	11,361
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760109/0760110	<u>16,134</u>
Total Department of Health and Human Services			\$ <u>323,168</u>
Department of Justice:			
Pass - through payments:			
Virginia Compensation Board:			
ARRA -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	2009-SU-B9-0033	\$ <u>42,700</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2010 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Catalog Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of the Interior:			
Direct Payments:			
Bureau of Land Management - National Payments in Lieu of Taxes	15.226	-	\$ <u>76,152</u>
Department of Transportation:			
Pass - through payments:			
Department of Motor Vehicles: State and Community Highway Safety	20.600	60507-50223	\$ <u>8,911</u>
Department of Education:			
Pass - through payments:			
Department of Education:			
Career and Technical Education -- Basic Grants to States	84.048	V048A090046	\$ 10,430
Safe and Drug-Free Schools and Communities -- State Grants	84.186	Q186A090048	3,905
State Grants for Innovative Programs	84.298	S298A070047	126
Improving Teacher Quality State Grants	84.367	S367A090044	35,940
ARRA -- State Fiscal Stabilization Funds -- Education State Grants	84.394	S394A090047	120,992
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A090046	79,839
ARRA -- Title I Grants to Local Educational Agencies	84.389	S389A090046	16,387
Special Education Cluster (IDEA):			
Special Education -- Grants to States	84.027	H027A090107	228,755
Special Education -- Preschool Grants	84.173	H173A090112	6,501
ARRA -- Special Education -- Grants to States	84.392	H392A090107	53,860
Educational Technology State Grants Cluster:			
Education Technology State Grants	84.318	S318X080046	1,308
ARRA -- Education Technology State Grants	84.386	S386A090046	<u>3,924</u>
Total Department of Education			\$ <u>561,967</u>
Total expenditures of federal awards			<u>\$ 1,249,223</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County of Rappahannock, Virginia under programs of the federal government for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of the County of Rappahannock, Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of the County of Rappahannock, Virginia.

Note 2 - Summary of Significant Accounting Policies

1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2) Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the County's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:	
General Fund	\$ <u>542,847</u>
Component unit School Board:	
School Operating Fund	\$ 561,966
School Cafeteria Fund	<u>144,410</u>
Total component unit School Board	\$ <u>706,376</u>
Total federal expenditures per basic financial statements	\$ <u>1,249,223</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,249,223</u>

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
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Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
10.561	SNAP Cluster
84.027/84.173/84.392	Special Education Cluster (IDEA)
93.558	Temporary Assistance for Needy Families (TANF)
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$	300,000
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Auditee qualified as low-risk auditee?	No
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COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section II - Financial Statement Findings

Significant deficiency:

2010-1

Condition:

In fiscal year 2010, the Sheriff's office maintained a Work Release Fund, which is funded with receipts from prisoners in the work release program. Fees paid by the prisoners in the program are designed to cover the cost of the program and to contribute to the cost of their incarceration. Total receipts in the account in fiscal 2010 were \$38,440. The Sheriff did not reconcile the work release bank account monthly as recommended by the Virginia Sheriff's Accounting Manual. In addition, this is the second year that the Sheriff is continuing to hold work release funds, now totaling \$38,170, and not depositing this money with the Treasurer as required by Section 15.2-1615 of the Code of Virginia.

Criteria:

Although the employees of the Sheriff's office are permitted to maintain funds not related to the official operations of the office, any direct involvement by the Sheriff in the funds could cause the funds to be considered locality functions. Funds associated with locality functions are required to be deposited with the County Treasurer, and must be appropriated by the County Board of Supervisors. Work release funds are statutorily considered locality funds, and must be remitted to the County Treasurer. Disbursement of such funds must be appropriated by the County Board of Supervisors.

Effect:

Work release funds are not permitted to be deposited into an account under control of the Sheriff. As a result, work release funds are not handled in compliance with the Code of Virginia. In addition, lack of a monthly reconciliation results in insufficient internal controls to ensure accountability over the work release funds.

Recommendation:

With respect to the Work Release account, we recommend that the Sheriff begin to remit these funds to the Treasurer as soon as is reasonably possible and that controls be implemented to ensure that all accounts are reconciled to the bank statement on a monthly basis.

We also recommend that a set of written procedures be developed and implemented for each source of funds received by the Sheriff's office. Such procedures should incorporate the recommendations and guidance provided by the Virginia Sheriff's Accounting Manual, to the extent the limited size of the County Sheriff's office permits.

Response:

Work release funds will be turned over to the Treasurer at the beginning of fiscal 2011.

The Sheriff also plans to establish written procedures for each account handled by the office that consider the guidance in the Virginia Sheriff's Accounting Manual.

Section III - Federal Award Findings and Questioned Costs

None

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

Significant deficiency:

2009-1

Condition:

Our audit work identified significant differences between the tax receivables balances carried on the County's general ledger and those on the property tax subsidiary ledger. Personnel in the Treasurer's office perform a detailed review of the activity in the subsidiary ledger but do not reconcile the balances to the County's general ledger. It should be noted that for financial statement purposes, the tax receivable balances reflected are those on the subsidiary ledger, not the general ledger.

Criteria:

The reconciliation of material balances on the general ledger to subsidiary detail is a critical control in the prevention of material misstatements in the financial statements. In addition, the maintenance of adequate books and records requires that the general ledger reflect balances in the financial statements.

Effect:

The lack of regular reconciliations of the property tax subsidiary ledger significantly increases the likelihood that a material misstatement could occur in the financial statements. We believe that this risk is somewhat mitigated by the work performed by an external consultant who prepares accrual basis trial balances for the County in conjunction with the audit.

Recommendation:

We recommend that regular reconciliations be performed between the property tax subsidiary ledger and the general ledger. We also recommend that any necessary adjustments be posted to the County's general ledger to reflect the tax receivables reported in the financial statements.

Response:

At the present time, the subsidiary property tax ledger is created for the fiscal year at the end of the fiscal year for each tax year for both real estate and personal property. Beginning in fiscal 2011, the subsidiary property tax ledger will be created at the beginning of the fiscal year and maintained monthly throughout the year. This will enable it to be reconciled to the general ledger each month so that any discrepancies can be uncovered and adjusted throughout the year.

Significant deficiency:

2009-2

Condition:

The County's manual general ledger was out of balance at the end of the year by \$500,000. This was the result of posting a one-sided entry for the purchase of a certificate of deposit. It should be noted that this error was corrected by the external consultant in the accrual basis trial balance that is prepared for the audit.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

2009-2: (Continued)

Criteria:

A general ledger that is out of balance by a material amount is, by definition, materially misstated.

Effect:

We believe that the extensive reconciliation of cash activity performed by the external consultant in conjunction with the audit somewhat mitigates, but does not eliminate, the risk that a material misstatement in the financial statements could occur.

Recommendation:

We recommend that the County implement an automated accounting system in the Treasurer's office. An automated system would significantly reduce the manpower needed to maintain manual records and to generate information for the financial statements. In addition, most automated do not permit the posting of one-sided entries.

Response:

At the present time there is no subsidiary certificate of deposit ledger. Beginning with fiscal 2011, a subsidiary certificate of deposit ledger will be created and maintained monthly. It will contain checklists for ensuring that both sides of journal entries are recorded. It will also be reconciled to the general ledger each month so that any discrepancies can be detected and corrected throughout the year. Rappahannock National Bank will also assist us by forwarding a monthly statement of CD activity.

Significant deficiency:

2009-3

Condition:

In order to draft the required supplementary information for the financial statements, a trial balance that includes a comparison of actual results to the original and final budgets must be prepared. This trial balance was prepared by the external consultant who assists the County with the annual audit. Our audit work detected that the trial balance did not reflect multiple additional appropriations that were made during the year.

Criteria:

Procedures used to generate budget information for the financial statements should provide a high degree of assurance that subsequent appropriations are accurately reflected.

Effect:

The final budget for the General Fund as presented in the financial statements required material corrections in order to accurately reflect all appropriations. The external consultant, who must manually aggregate such appropriations and relies on County personnel to provide them to her, was given an incomplete listing of subsequent appropriations.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

2009-3: (Continued)

Recommendation:

We recommend that the County implement an integrated, automated financial system to track all appropriations. This would significantly reduce the manpower needed to generate financial statement information. It would also reduce the time spent by various County personnel in aggregating budget information when monitoring actual expenditures versus appropriations.

Response:

The County budget process in fiscal 2009 was complicated by the usually large number of capital projects undertaken by the County, many of which had multiple funding streams. The volume and size of the capital projects are not anticipated to be recurring. The County Administrator intends to implement a tracking list of supplemental appropriations, to more easily facilitate the preparation of financial statement information in the future.

Given the very real financial burdens of the County, the County Administrator recommends that the acquisition of a new integrated financial system be delayed until at least fiscal 2012.

2009-4

Condition:

During the latter part of fiscal 2009, the long-term office manager at the County's Department of Social Services, who handled all fiscal responsibilities at the agency, was requested to retire. The office manager's tenure terminated at the end of fiscal 2009. During the final audit fieldwork, it was discovered that significant amounts of supporting documentation for disbursements for the last three months of the fiscal year could not be located, including the file with approved purchase orders for fiscal 2009.

Criteria:

Controls should be in place to ensure that documentation related to invoices and purchase orders are maintained and secured in an orderly fashion. This includes effective monitoring to ensure that the employee responsible for performing these tasks is actually doing so.

Effect:

Lack of effective oversight over an employee with significant financial responsibilities may lead to critical weaknesses in internal control over disbursements.

Recommendation:

Written policies and procedures should be put in place to ensure that appropriate controls over the filings and retention of documentation supporting disbursements are maintained. In addition, non-financial managerial personnel should ensure compliance with and monitoring of the record retention function. In addition, non-financial managerial personnel should ensure compliance with and monitoring of the record retention function.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

2009-4: (Continued)

Response:

The lack on invoices and purchase orders at the Department of Social Services is a very real concern. The County Administrator will request that the Board of Supervisors direct the Social Services Board to implement the policies and procedures recommended above.

2009-5

Condition:

In fiscal 2009, the Sheriff's office maintained four bank accounts, on all of which the Sheriff was an authorized signatory.

Two of the accounts, the Shop with a Deputy Fund and the Petty Cash Fund, are used for monies that are not related to the official operations of the Sheriff's office. Total receipts during fiscal 2009 in the two accounts were \$24,450 and \$3,455 respectively.

The third account, the Work Release Fund, is funded with receipts from prisoners in the work release program. Fees paid by the prisoners in the program are designed to cover the cost of the program and to contribute to the cost of their incarceration. Total receipts in the account in fiscal 2009 were \$56,568.

The fourth account, the Canteen Fund, is used to provide toiletries and other small items to prisoners for a charge, and to purchase items that benefit the general welfare of the prisoners. Funding for this account is derived from the prisoner at the time of incarceration, and from donations from the prisoner's family. Total receipts in this account were \$18,834 in fiscal 2009. During 2009, a designated employee prepared and made deposits, prepared and signed checks, maintained QuickBooks records for the account, and reconciled the bank account.

Criteria:

Although the employees of the Sheriff's office are permitted to maintain funds not related to the official operations of the office, any direct involvement by the Sheriff in the funds could cause the funds to be considered locality functions. Funds associated with locality functions are required to be deposited with the County Treasurer, and must be appropriated by the County Board of Supervisors.

Work release funds are statutorily considered locality funds, and must be remitted to the County Treasurer. Disbursement of such funds must be appropriated by the County Board of Supervisors.

The Code of Virginia exempts canteen funds received by the Sheriff's office from the requirements of depositing them with the County Treasurer. However, a system of internal control over the funds must be in place to ensure accountability for the funds.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2010

2009-5: (Continued)

Effect:

Because the Sheriff is an authorized signatory on the Shop with a Deputy and the Petty Cash accounts, the funds may be considered locality funds. Work release funds are not permitted to be deposited into an account under the control of the Sheriff. Internal controls in place in fiscal 2009 over the Canteen account are inadequate to provide accountability for the funds.

It should be noted that the sheriff assumed her responsibilities in fiscal 2008, and has primarily continued policies and procedures that were in place prior to her tenure.

Recommendations:

With respect to the Shop with a Deputy and Petty Cash accounts, we recommend that the Sheriff consider restructuring responsibilities for these funds so that she cannot be reasonably associated with these funds.

With respect to the Work Release account, we recommend that the Sheriff begin to remit these funds to the Treasurer as soon as is reasonably possible.

With respect to the Canteen account, we recommend that the current responsibilities for the account be restructured so as to provide adequate segregation of duties related to receipting, depositing, and recording, and to authorizing and approving disbursements.

We also recommend that a set of written procedures be developed and implemented for each source of funds received by the Sheriff's office. Such procedures should incorporate the recommendations and guidance provided by the Virginia Sheriff's Accounting Manual, to the extent the limited size of the County's Sheriff's office permits.

Response:

The Sheriff is currently in the process of removing her name as authorized signatory from all accounts.

The Sheriff's office is in the process of converting the Shop with a Deputy Fund into a charitable foundation. The Sheriff will be a board member of the foundation, but will not have check signing authority.

Responsibilities within the Sheriff's office will be reassigned so that the Sheriff no longer has any formal association with the Petty Cash Fund.

Work release funds will be turned over the Treasurer at the beginning of fiscal 2011.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

2009-5: (Continued)

All procedures associated with the Canteen Fund are currently under review to ensure adequate segregation of duties for the funds is established and to develop a regular schedule for review of activity in the account.

The Sheriff also plans to establish written procedures for each account handled by the office that consider the guidance in the Virginia Sheriff's Accounting Manual.

Significant deficiency:

2009-6

Condition:

The School Food Director, who also functions as the cafeteria manager at one County school, is currently receipting funds (in her capacity as cafeteria manager), preparing and making bank deposits, and recording the deposits in the manual ledger maintained for the School Food fund.

Criteria:

Adequate segregation of duties related to cash receipts is critical in establishing an effective system of internal controls.

Effect:

Lack of segregation of duties related to cash receipting, depositing, and recording of cash receipts increases the risk that a misappropriation of cash will not be prevented or detected on a timely basis.

Recommendation:

We recommend that the responsibilities for receipting school food funds be reassigned to another individual in the cafeteria. The employee who balances the daily receipts should document the work performed and initial that work. We also recommend that the responsibility of recording deposits be reassigned to personnel in the School Board finance department. Additional efficiencies could be attained by using an automated software package to record activity in the School Food fund.

Response:

The current School Food Director will be retiring at the end of fiscal 2010. The intended replacement for this position will be housed at the elementary school cafeteria rather than at the School Board office. A member of the cafeteria staff will be assigned to assist the School Food Director/Elementary School Cafeteria Manager with the daily accounting procedures. Current record keeping procedures, which include reconciliation of the bank statement by the School Food Director, will continue in place.

COUNTY OF RAPPAHANNOCK, VIRGINIA

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2010

Significant deficiency;

2009-7

Condition:

As part of its oversight of the federal school food program, the Virginia Department of Education requires that all School Divisions annually verify a sample of applications for school meal benefits. Verification is the confirmation of the eligibility for free or reduced price meals under the National School Lunch and School Breakfast Programs. Verification must include confirmation of income eligibility or confirmation that a child is included in a household certified for Food Stamps or Temporary Assistance for Needy Families (TANF). During fiscal 2009, the School Board provided incorrect information on its verification report. It should be noted that this condition was detected by an Operation and Administrative Review of the School Board's Nutrition Program that was performed by the Virginia Department of Education.

Criteria:

Adequate policies and procedures should be in place to ensure that accurate data related to participants in the Free and Reduced Lunch programs is reported to the Virginia Department of Education.

Effect:

Upon notification from the State, the School Board corrected all errors. The errors were the result of incorrect extraction of information from the software used to track activity of the Free and Reduced Lunch program.

We recommend that the School Board perform an ongoing review of the federal compliance requirements of the school food program to ensure that current policies and procedures are adequate to meet them.

Response:

The School Board is in the process of implementing School Matrix, which is a student tracking system. It is anticipated that this system will eliminate input errors because all information from a student's ID package is entered once and at the same time. The School Board believes that implementation of this software will make SIF (Schools Interoperability Framework) compliant with all state reporting requirements.