



TOWN OF PURCELLVILLE, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

---

**TOWN OF PURCELLVILLE, VIRGINIA**  
**FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2006**



# TOWN OF PURCELLVILLE, VIRGINIA

---

## COUNCIL

---

Karl R. Phillips	William T. Druhan, Mayor	
Nick W. Pelchar	Robert W. Lazaro, Jr., Vice-Mayor	
	Thomas A. Priscilla, Jr.	Gregory W. Wagner
		Christopher J. Walker, III

## OFFICIALS

---

Robert W. Lohr, Jr.	Town Manager
Patrick Childs	Assistant Town Manager
Elizabeth B. Krens	Director of Finance
Martha Mason Semmes	Director of Planning and Zoning
Karin Fellers	Director of Utilities
Steve Plante	Director of Streets and Maintenance
Doris Reed	Executive Assistant to Town Manager
Darryl C. Smith, Sr.	Chief of Police



## Table of Contents

---

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
 <b><u>Basic Financial Statements:</u></b>	
<b>Government-wide Financial Statements:</b>	
Exhibit 1 Statement of Net Assets	10
Exhibit 2 Statement of Activities	11-12
 <b>Fund Financial Statements:</b>	
Exhibit 3 Balance Sheet—Governmental Funds	13
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	15
Exhibit 6 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Exhibit 7 Statement of Net Assets—Proprietary Funds	17
Exhibit 8 Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds	18
Exhibit 9 Statement of Cash Flows—Proprietary Funds	19-20
Notes to Financial Statements	21-36
 <b><u>Required Supplementary Information:</u></b>	
Exhibit 10 Schedule of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General Fund	37
Exhibit 11 Schedule of Pension Funding Progress for the Virginia Retirement System	38

## Table of Contents (Continued)

---

### Page

#### Other Supplementary Information:

##### Supporting Schedules

Schedule 1	Schedule of Revenues—Budget and Actual—Governmental Funds	39-40
Schedule 2	Schedule of Expenditures—Budget and Actual—Governmental Funds	41-42
Schedule 3	Schedule of Revenues and Expenses—Budget and Actual—Water Fund	43-45
Schedule 4	Schedule of Revenues and Expenses—Budget and Actual—Sewer Fund	46-47
Schedule 5	Capital Assets Used in the Operation of Governmental Funds— Comparative Schedules by Source	48
Schedule 6	Capital Assets Used in the Operation of Governmental Funds—Schedules by Function and Activity	49-50
Schedule 7	Capital Assets Used in the Operation of Governmental Funds— Schedule of Changes by Function and Activity	51

##### Statistical Tables

Table 1	Net Assets by Component—Last Three Fiscal Years	52
Table 2	Changes in Net Assets— Last Three Fiscal Years	53-54
Table 3	Governmental Activities Tax Revenues by Source—Last Three Fiscal Years	55
Table 4	Fund Balances of Governmental Funds—Last Four Fiscal Years	56
Table 5	Changes in Fund Balances of Governmental Funds—Last Four Fiscal Years	57
Table 6	General Governmental Tax Revenues by Source—Last Four Fiscal Years	58
Table 7	Assessed Value and Estimated Actual Value of Taxable Property—Last Ten Fiscal Years	59

## Table of Contents (Continued)

---

Page

**Statistical Tables (Continued)**

Table 8	Property Tax Rates (1) Direct and Overlapping Governments—Last Ten Fiscal Years	60
Table 9	Principal Property Taxpayers—Current Year and the Period Nine Years Prior	61
Table 10	Ratios of Outstanding Debt by Type—Last Five Fiscal Years	62
Table 11	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita—Last Ten Fiscal Years	63
Table 12	Legal Debt Margin Information—Last Ten Fiscal Years	64-65

**Compliance:**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
---	----



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## Independent Auditors' Report

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL  
TOWN OF PURCELLVILLE, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Purcellville, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Purcellville, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Town of Purcellville, Virginia, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2006, on our consideration of the Town of Purcellville, 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 and other required supplementary information 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 consisted 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 purpose of forming an opinion on the financial statements that collectively comprise the Town of Purcellville, Virginia's, basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Town of Purcellville, Virginia. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds. The statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Robinson, Fann, Cox Associates*

Charlottesville, Virginia  
August 23, 2006

## Town of Purcellville, Virginia Management's Discussion and Analysis

---

As management of the Town of Purcellville (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. Please read it in conjunction with the Town's basic financial statements, which follow this section.

### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$55 million (*net assets*). Of this amount, \$14.3 million (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$.63 million, of which the governmental activities accounted for \$.55 million of this decrease and business-type activities accounted for \$.08 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4.1 million, an increase of \$1.8 million in comparison with the prior year. 100% of this amount, is *available for spending* at the Town's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4.1 million, or 60% of governmental fund expenditures less any capital outlay projects funded with bond proceeds.
- The Town's total debt increased by \$5,577,275 (49%) during the current fiscal year. The key factor in this net increase was the issuance of \$5.3 million in general obligation bonds.

### Overview of the Financial Statements

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

#### Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of how the financial position of the Town may be changing. Increases in net assets may indicate an improved financial position; however, even decreases in net assets may reflect a changing manner in which the Town may have used previously accumulated funds.

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

## Overview of the Financial Statements: (Continued)

### Government-wide financial statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, and public works. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 11 through 13 of this report.

### Fund financial statements

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

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

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

The Town maintains one governmental fund. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

The Town maintains one type of *Proprietary Fund*. The Town uses *enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements, to account for its public utilities. The basic proprietary fund financial statements can be found on pages 18 through 21 of this report.

### Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 38 of this report.

### Other information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning budgetary comparisons for the general fund and the schedule of funding in progress relating to the Town's participation in its defined benefit pension plan. Required supplementary information can be found on pages 39 and 40 of this report.

Overview of the Financial Statements: (Continued)

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$55.6 million at the close of the most recent fiscal year. A large portion of the Town's net assets (\$40.65 million, 73% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

The following table summarizes the Town's Statement of Net Assets:

Town of Purcellville, Virginia  
Summary of Net Assets  
As of June 30, 2006

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 3,109,385	\$ 4,713,661	\$ 13,176,981	\$ 14,924,524	\$ 16,286,366	\$ 19,638,185
Capital assets	32,896,221	32,742,154	18,888,432	20,526,155	51,784,653	53,268,309
Total assets	\$ 36,005,606	\$ 37,455,815	\$ 32,065,413	\$ 35,450,679	\$ 68,071,019	\$ 72,906,494
Long-term liabilities						
outstanding	\$ 968,852	\$ 3,127,992	\$ 10,399,792	\$ 13,817,927	\$ 11,368,644	\$ 16,945,919
Other liabilities	779,965	620,174	288,602	333,120	1,068,567	953,294
Total liabilities	\$ 1,748,817	\$ 3,748,166	\$ 10,688,394	\$ 14,151,047	\$ 12,437,211	\$ 17,899,213
Net assets:						
Invested in capital assets,						
net of related debt	\$ 32,119,537	\$ 31,508,203	\$ 8,538,644	\$ 9,222,830	\$ 40,658,181	\$ 40,731,033
Unrestricted	2,137,252	2,199,446	12,838,372	12,076,802	14,975,624	14,276,248
Total net assets	\$ 34,256,789	\$ 33,707,649	\$ 21,377,016	\$ 21,299,632	\$ 55,633,805	\$ 55,007,281

At the end of the current fiscal year, the Town is able to report positive balances in both categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities.

As noted previously, the Town's net assets decreased by \$.63 million during the current fiscal year, generally due to an increase in various expenses during the year.

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

Governmental activities decreased the Town's net assets by \$.55 million thereby accounting for 87% of the total decrease in the net assets of the Town. The following table summarizes the Town's Statement of Activities:

Town of Purcellville, Virginia  
Changes in Net Assets  
As of June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	\$ 178,096	\$ 148,767	\$ 1,972,317	\$ 1,901,400	\$ 2,150,413	\$ 2,050,167
Operating grants and contributions	114,921	233,193	-	-	114,921	233,193
General revenues:						
Property taxes	1,677,627	2,102,097	-	-	1,677,627	2,102,097
Other taxes	2,224,667	2,659,820	-	-	2,224,667	2,659,820
Fines and forfeitures	66,885	78,732	-	-	66,885	78,732
Unrestricted revenues	29,961	105,679	175,270	533,249	205,231	638,928
Miscellaneous	76,994	72,547	119,670	162,433	196,664	234,980
Grants and contributions not restricted to specific programs	194,092	400,881	-	-	194,092	400,881
Total revenues	\$ 4,563,243	\$ 5,801,716	\$ 2,267,257	\$ 2,597,082	\$ 6,830,500	\$ 8,398,798
Expenses:						
General government administration	\$ 1,450,167	\$ 1,451,606	\$ -	\$ -	\$ 1,450,167	\$ 1,451,606
Public safety	987,686	1,367,893	-	-	987,686	1,367,893
Public works	2,979,121	3,474,333	-	-	2,979,121	3,474,333
Parks, recreation and culture	17,077	32,704	-	-	17,077	32,704
Community development	451,194	455,350	-	-	451,194	455,350
Interest on long-term debt	28,853	104,799	-	-	28,853	104,799
Water fund	-	-	1,221,858	1,845,569	1,221,858	1,845,569
Sewer fund	-	-	1,531,506	1,704,589	1,531,506	1,704,589
Total expenses	\$ 5,914,098	\$ 6,886,685	\$ 2,753,364	\$ 3,550,158	\$ 8,667,462	\$ 10,436,843
Increase in net assets before transfers and capital contributions	\$ (1,350,855)	\$ (1,084,969)	\$ (486,107)	\$ (953,076)	\$ (1,836,962)	\$ (2,038,045)
Transfers	\$ 17,314	\$ 17,308	\$ (17,314)	\$ (17,308)	\$ -	\$ -
Capital contributions	342,297	518,521	2,199,000	893,000	2,541,297	1,411,521
Increase in net assets	\$ (991,244)	\$ (549,140)	\$ 1,695,579	\$ (77,384)	\$ 704,335	\$ (626,524)
Net assets-beginning of year	\$ 35,248,033	\$ 34,256,789	\$ 19,681,437	\$ 21,377,016	\$ 54,929,470	\$ 55,633,805
Net assets-end of year	\$ 34,256,789	\$ 33,707,649	\$ 21,377,016	\$ 21,299,632	\$ 55,633,805	\$ 55,007,281

## Government-Wide Financial Analysis (Continued)

Generally, net asset changes are for the difference between revenues and expenses. A key element of this decrease follows:

- The decrease in net assets can be attributed to the reporting of depreciation expense, a non-cash expense, in relation to the Town's capital assets. Depreciation expense accounted for \$1.3 million of the decrease.

**Business-type activities** decreased the Town's net assets by \$.08 million, accounting for 13% of the total decrease in the Town's net assets. Similar to how changes arise in the governmental activities, business-type activities also experience budgetary differences; however, as a public utility function comprises the Town's business-type activities there is more of a direct correlation to the revenues generated relative to the expenses incurred because of service demands. The decrease in availability fees from the prior year was the main component of the decrease.

## Financial Analysis of the Town's Funds

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

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

As of the end of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$4.07 million, an increase of \$1.71 million in comparison with the prior year. The entire amount of this total is reported as unreserved, which is available for spending at the Town's discretion.

At the end of the current fiscal year, unreserved fund balance as well as total fund balance of the General Fund was \$4.7 million. As a measure of the General Fund's liquidity, the fund balance represents 60% of total General Fund expenditures.

**Proprietary funds:** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$21.3 million. The total net assets decreased by \$.08 million from the prior year.

## General Fund Budgetary Highlights

There was a decrease of \$2,698,361 between the original budget and the final amended budget expenditures. The decrease can be attributed to an increase in public works - \$90,639 and community development - \$40,000 as well as a decrease in capital outlay - \$2,837,000.

## Capital Asset and Debt Administration

**Capital assets:** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$53.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment as well as construction in progress.

**Capital Asset and Debt Administration: (Continued)**

Capital assets, net of accumulated depreciation, are illustrated in the following table:

Town of Purcellville, Virginia  
Capital Assets  
(net of depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2006	2005	2006	2005	2006
Land	\$ 50,000	\$ 50,000	\$ 842,670	\$ 842,670	\$ 892,670	\$ 892,670
Buildings	658,301	662,684	-	-	658,301	662,684
Utility plant in service	-	-	15,896,985	17,205,646	15,896,985	17,205,646
Improvements other than buildings	15,338	237,545	325,500	304,700	340,838	542,245
Infrastructure	31,658,836	30,591,527	-	-	31,658,836	30,591,527
Machinery & Equipment	268,770	473,392	59,474	67,545	328,244	540,937
Vehicles	105,185	225,970	25,200	95,104	130,385	321,074
Construction in progress	139,791	501,036	1,738,603	2,010,490	1,878,394	2,511,526
<b>Total</b>	<b>\$ 32,896,221</b>	<b>\$ 32,742,154</b>	<b>\$ 18,888,432</b>	<b>\$ 20,526,155</b>	<b>\$ 51,784,653</b>	<b>\$ 53,268,309</b>

Additional information on the Town's capital assets can be found in note 4 on pages 29 through 30 of this report.

**Long-term debt:** At the end of the current fiscal year, the Town had total outstanding debt of \$16.9 million and details are summarized in the following table:

Town of Purcellville, Virginia  
Outstanding Debt  
For the Year Ended June 30, 2006

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2006	2005	2006	2005	2006
Bonds Payable:						
General obligation bonds	\$ 731,571	\$ 2,906,550	\$ -	\$ 3,589,500	\$ 731,571	\$ 6,496,050
Revenue bonds	-	-	10,349,788	10,168,940	10,349,788	10,168,940
Capital leases	45,113	3,147	-	-	45,113	3,147
Compensated absences	192,168	218,295	50,004	59,487	242,172	277,782
<b>Total</b>	<b>\$ 968,852</b>	<b>\$ 3,127,992</b>	<b>\$ 10,399,792</b>	<b>\$ 13,817,927</b>	<b>\$ 11,368,644</b>	<b>\$ 16,945,919</b>

## Capital Asset and Debt Administration: (Continued)

Debt associated with governmental activities increased by \$2,159,140 while debt associated with business-type activities increased by \$3,418,135. The key factor in the increase in governmental activities and business-type activities was the issuance of \$5,822,500 in general obligation bonds.

The Town is subject to a statutory debt limitation. The legal debt margin is limited to 10% of total assessed value. The margin is computed as all bonded debt and long-term notes except for enterprise indebtedness over total assessed value of taxed real property. The Town was in compliance with debt limitation as of June 30, 2006.

Additional information on the Town's long-term debt and compliance can be found in Note 5.

## Economic Factors and Next Year's Budgets and Rates

The Town has continued to feel the effects of the explosive growth of our region. Over the past few years, Purcellville has received the dubious distinction of being named as one of the fastest growing towns in the United States. Purcellville has seen significant build-out of residential development south of Town in the Hirst Farm and Village Case subdivisions. The dramatic tripling of the Town's population within the last decade has brought many organizational challenges including delivery of basic services and pressures on capital infrastructure. The rapid change has affected our ability to respond efficiently to daily operational needs and severely hampered our long range planning efforts. Examples of this are a comprehensive plan that is outdated within a year or two, capital projects with a 20 year life span can become outdated, overburdened or obsolete in 5 years, and significant utility based unfunded mandates from State and Federal agencies such as the Chesapeake Bay Initiative.

In tax year 2006, the Town continued to experience a large increase in real estate assessments of 45% for total assessments and 35% for existing properties. Due to the large assessment increases of the past few years, the Town Council has reduced the real estate tax rate from \$.24 for 2002, \$.22 for 2003, \$.21 for 2004, \$.20 for 2005 to \$.17 for 2006. We expect this trend to moderate considerably in 2007 due to market changes.

Utility rates were increased in FY06 from \$4.35 to \$4.87 per 1,000 gallons for water and from \$6.33 to \$7.09 per 1,000 gallons for sewer. This rate increase was necessitated by recent cost increases due to capital projects and an increasing complexity of mandates by regulatory authorities for environmental concerns. During the FY07 budget negotiations, the Town's financial advisors, Municipal & Financial Services Group and Davenport & Co., completed a utility user fee and availability rate study. Based on this study, Council adopted an ascending tiered rate structure for water (\$3.44/1,000 gal up to 6,000 gal, \$4.58 between 6,000-12,000 gal, \$5.73 between 12,000 and 18,000 gal and \$6.87 over 18,000 gal) and \$7.25 per 1,000 gallons for sewer effective July 2006. Council also adopted to replace the \$1.75 service charge per billing for each account with water and sewer service fees based on meter size. The new water tiered-rate structure is intended to encourage wise water usage by rewarding low water users with lower water rates.

In FY06, the utility funds saw a downturn in availability revenue due to the decrease in new construction. Availability rates were increased in FY07 (\$10,000 to \$18,800 for water and \$9,000 to \$16,000 for sewer) based on the above mentioned utilities study to address these changes with the goal of covering the costs of our capital projects.

Town of Purcellville continues to be a very attractive place to live and shop. Coupled with the increase in demand for services and goods, Purcellville business sector continues to expand. Purcellville's thriving business community supports more than 45% of the Town's revenue profile. Although we expect to continue to experience moderate growth in our commercial corridor, most of the residential development is flat and we expect no increase in assessments for existing properties in 2007.

## Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Purcellville, 130 East Main Street, Purcellville, VA 20132.

# **Government—wide Financial Statements**

This page intentionally left blank

Statement of Net Assets  
For the Year Ended June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,751,513	\$ 2,823,074	\$ 6,574,587
Investments	616,257	11,955,866	12,572,123
Receivables (net of allowance for uncollectibles):			
Taxes receivable	68,706	-	68,706
Accounts receivable	117,845	142,543	260,388
Interest receivable	-	3,041	3,041
Due from other governmental units	159,340	-	159,340
Capital assets (net of accumulated depreciation):			
Land	50,000	842,670	892,670
Buildings and system	662,684	-	662,684
Improvements other than buildings	254,834	304,700	559,534
Machinery and equipment	458,390	67,545	525,935
Vehicles	240,972	95,104	336,076
Infrastructure	30,574,238	-	30,574,238
Utility plant in service	-	17,205,646	17,205,646
Construction in progress	501,036	2,010,490	2,511,526
Total assets	\$ 37,455,815	\$ 35,450,679	\$ 72,906,494
<b>LIABILITIES</b>			
Accounts payable	\$ 172,609	\$ 243,020	\$ 415,629
Accrued liabilities	11,741	-	11,741
Customers' deposits	-	20,835	20,835
Accrued interest payable	26,030	69,265	95,295
Deposits held in escrow	409,794	-	409,794
Long-term liabilities:			
Due within one year	137,713	379,201	516,914
Due in more than one year	2,990,279	13,438,726	16,429,005
Total liabilities	\$ 3,748,166	\$ 14,151,047	\$ 17,899,213
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 31,508,203	\$ 9,222,830	\$ 40,731,033
Unrestricted (deficit)	2,199,446	12,076,802	14,276,248
Total net assets	\$ 33,707,649	\$ 21,299,632	\$ 55,007,281

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

TOWN OF PURCELLVILLE, VIRGINIA

Statement of Activities  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government administration	\$ 1,451,606	\$ 145,948	\$ -	\$ -
Public safety	1,367,893	-	128,593	-
Public works	3,474,333	2,819	89,500	518,521
Parks, recreation, and cultural	32,704	-	5,100	-
Community development	455,350	-	10,000	-
Interest on long-term debt	104,799	-	-	-
<b>Total government activities</b>	<b>\$ 6,886,685</b>	<b>\$ 148,767</b>	<b>\$ 233,193</b>	<b>\$ 518,521</b>
Business-type activities:				
Water	\$ 1,845,569	\$ 801,186	\$ -	\$ 470,000
Sewer	1,704,589	1,100,214	-	423,000
<b>Total business-type activities</b>	<b>\$ 3,550,158</b>	<b>\$ 1,901,400</b>	<b>\$ -</b>	<b>\$ 893,000</b>
<b>Total primary government</b>	<b>\$ 10,436,843</b>	<b>\$ 2,050,167</b>	<b>\$ 233,193</b>	<b>\$ 1,411,521</b>

General revenues:  
 General property taxes  
 Other local taxes:  
     Local sales and use tax  
     Business licenses  
     Utility taxes  
     Restaurant food taxes  
     Other local taxes  
 Fines and forfeitures  
 Unrestricted revenues from use of money and property  
 Miscellaneous  
 Grants and contributions not restricted to specific programs  
 Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,305,658)	\$ -	\$ (1,305,658)
(1,239,300)	-	(1,239,300)
(2,863,493)	-	(2,863,493)
(27,604)	-	(27,604)
(445,350)	-	(445,350)
(104,799)	-	(104,799)
<u>\$ (5,986,204)</u>	<u>\$ -</u>	<u>\$ (5,986,204)</u>
\$ -	\$ (574,383)	\$ (574,383)
-	(181,375)	(181,375)
<u>\$ -</u>	<u>\$ (755,758)</u>	<u>\$ (755,758)</u>
<u>\$ (5,986,204)</u>	<u>\$ (755,758)</u>	<u>\$ (6,741,962)</u>
\$ 2,102,097	\$ -	\$ 2,102,097
616,091	-	616,091
572,165	-	572,165
301,533	-	301,533
638,441	-	638,441
531,590	-	531,590
78,732	-	78,732
105,679	533,249	638,928
72,547	162,433	234,980
400,881	-	400,881
17,308	(17,308)	-
<u>\$ 5,437,064</u>	<u>\$ 678,374</u>	<u>\$ 6,115,438</u>
(549,140)	(77,384)	(626,524)
<u>34,256,789</u>	<u>21,377,016</u>	<u>55,633,805</u>
<u>\$ 33,707,649</u>	<u>\$ 21,299,632</u>	<u>\$ 55,007,281</u>

This page intentionally left blank

## **Fund Financial Statements**

This page intentionally left blank

Balance Sheet  
 Governmental Funds  
 For the Year Ended June 30, 2006

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents (Note 2)	\$ 3,751,513
Investments	616,257
Receivables (net of allowance for uncollectibles):	
Taxes receivable (Note 1)	68,706
Accounts receivable	117,844
Due from other governmental units (Note 3)	<u>159,340</u>
Total assets	<u>\$ 4,713,660</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 172,609
Accrued liabilities	11,741
Unearned revenue	46,173
Customer deposits	<u>409,794</u>
Total liabilities	<u>\$ 640,317</u>
Fund balances:	
Unreserved, designated reported in:	
General fund	\$ 1,935,862
Unreserved, undesignated reported in:	
General fund	<u>2,137,481</u>
Total fund balances	<u>\$ 4,073,343</u>
Total liabilities and fund balances	<u>\$ 4,713,660</u>

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

Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Assets  
 For the Year Ended June 30, 2006

---

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 4,073,343
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,742,154
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	46,173
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,154,021)</u>
Net assets of governmental activities	<u>\$ 33,707,649</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 2,092,568
Other local taxes	2,659,820
Permits, privilege fees, and regulatory licenses	148,767
Fines and forfeitures	78,732
Revenue from the use of money and property	105,679
Miscellaneous	79,747
Intergovernmental revenues:	
Local government	89,500
Commonwealth	900,310
Federal	155,585
	<u>6,310,708</u>
Total revenues	\$ <u>6,310,708</u>
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 1,462,066
Public safety	1,128,938
Public works	2,152,098
Parks, recreation, and cultural	17,806
Community development	665,467
Capital outlay	1,201,440
Debt service:	
Principal retirement	73,865
Interest and other fiscal charges	84,750
	<u>84,750</u>
Total expenditures	\$ <u>6,786,430</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(475,722)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 17,308
Proceeds of general obligation bonds	2,233,000
	<u>2,233,000</u>
Total other financing sources (uses)	\$ <u>2,250,308</u>
Net change in fund balances	\$ 1,774,586
Fund balances - beginning	<u>2,298,757</u>
Fund balances - ending	<u>\$ 4,073,343</u>

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

Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2006

---

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,774,586
--	--------------

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 the depreciation exceeded capital outlays in the current period.	(154,067)
---	-----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,529
--	-------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,159,135)
--	-------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	<u>(20,053)</u>
--	-----------------

Change in net assets of governmental activities	<u><u>\$ (549,140)</u></u>
---	----------------------------

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

## Statement of Net Assets

## Proprietary Funds

For the Year Ended June 30, 2006

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 769,064	\$ 2,054,010	\$ 2,823,074
Investments	5,559,241	6,396,625	11,955,866
Receivables, net of allowances for uncollectibles			
Accounts	95,391	47,152	142,543
Accrued interest	1,317	1,724	3,041
Total current assets	\$ 6,425,013	\$ 8,499,511	\$ 14,924,524
Capital assets:			
Utility plant in service	\$ 8,741,025	\$ 10,816,214	\$ 19,557,239
Land	475,570	367,100	842,670
Improvements other than buildings	445,000	-	445,000
Vehicles	69,028	111,732	180,760
Machinery and equipment	50,959	62,126	113,085
Construction in progress	787,562	1,222,928	2,010,490
Less accumulated depreciation	(1,487,679)	(1,135,410)	(2,623,089)
Total capital assets	\$ 9,081,465	\$ 11,444,690	\$ 20,526,155
Total noncurrent assets	\$ 9,081,465	\$ 11,444,690	\$ 20,526,155
Total assets	\$ 15,506,478	\$ 19,944,201	\$ 35,450,679
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 188,183	\$ 54,837	\$ 243,020
Customers' deposits	20,835	-	20,835
Accrued interest payable	53,708	15,557	69,265
Bonds payable - current portion	213,466	165,735	379,201
Total current liabilities	\$ 476,192	\$ 236,129	\$ 712,321
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 5,155,367	\$ 8,223,872	\$ 13,379,239
Compensated absences	17,104	42,383	59,487
Total noncurrent liabilities	\$ 5,172,471	\$ 8,266,255	\$ 13,438,726
Total liabilities	\$ 5,648,663	\$ 8,502,384	\$ 14,151,047
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 5,039,234	\$ 4,183,596	\$ 9,222,830
Unrestricted	4,818,581	7,258,221	12,076,802
Total net assets	\$ 9,857,815	\$ 11,441,817	\$ 21,299,632
Total liabilities and net assets	\$ 15,506,478	\$ 19,944,201	\$ 35,450,679

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2006

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services:			
Charges for services and connection fees	\$ 769,273	\$ 1,043,190	\$ 1,812,463
Other revenues	31,913	57,024	88,937
Miscellaneous	15,424	32,434	47,858
Total operating revenues	\$ 816,610	\$ 1,132,648	\$ 1,949,258
<b>OPERATING EXPENSES</b>			
Personnel services	\$ 441,329	\$ 536,913	\$ 978,242
Employee benefits	162,343	196,695	359,038
Plant operations	239,240	262,304	501,544
Well operations	110,853	-	110,853
Pump station operations	-	43,838	43,838
Equipment and vehicles	56,046	19,333	75,379
Depreciation	201,901	213,669	415,570
Other	380,307	51,935	432,242
Total operating expenses	\$ 1,592,019	\$ 1,324,687	\$ 2,916,706
Operating income (loss)	\$ (775,409)	\$ (192,039)	\$ (967,448)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	\$ 236,169	\$ 297,080	\$ 533,249
Cellular lease	114,575	-	114,575
Bond issuance costs	(12,346)	(11,117)	(23,463)
Interest expense	(241,204)	(368,785)	(609,989)
Total nonoperating revenues (expenses)	\$ 97,194	\$ (82,822)	\$ 14,372
Income before contributions and transfers	\$ (678,215)	\$ (274,861)	\$ (953,076)
Contributed capital - availability fees	\$ 470,000	\$ 423,000	\$ 893,000
Transfers out	(8,654)	(8,654)	(17,308)
Change in net assets	\$ (216,869)	\$ 139,485	\$ (77,384)
Total net assets - beginning	10,074,684	11,302,332	21,377,016
Total net assets - ending	\$ 9,857,815	\$ 11,441,817	\$ 21,299,632

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

## Statement of Cash Flows

## Proprietary Funds

For the Year Ended June 30, 2006

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 903,954	\$ 1,254,509	\$ 2,158,463
Payments to suppliers	(775,291)	(343,651)	(1,118,942)
Payments to and on behalf of employees	(608,168)	(719,629)	(1,327,797)
Net cash provided (used by) operating activities	\$ (479,505)	\$ 191,229	\$ (288,276)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Cellular lease	\$ 114,575	\$ -	\$ 114,575
Transfers to other funds	(8,654)	(8,654)	(17,308)
Net cash provided (used) by noncapital financing activities	\$ 105,921	\$ (8,654)	\$ 97,267
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant and equipment	\$ (849,698)	\$ (1,203,595)	\$ (2,053,293)
Availability fees	470,000	423,000	893,000
Bond issuance costs	(12,346)	(11,117)	(23,463)
Retirements of long-term indebtedness	(133,860)	(94,178)	(228,038)
Proceeds from indebtedness	1,888,792	1,747,898	3,636,690
Interest payments	(241,204)	(368,785)	(609,989)
Net cash provided (used) by capital and related financing activities	\$ 1,121,684	\$ 493,223	\$ 1,614,907
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends received	\$ 236,169	\$ 297,080	\$ 533,249
Net cash provided (used) by investing activities	\$ 236,169	\$ 297,080	\$ 533,249
Net increase (decrease) in cash and cash equivalents	\$ 984,269	\$ 972,878	\$ 1,957,147
Cash and cash equivalents - beginning	5,344,036	7,477,757	12,821,793
Cash and cash equivalents - ending	\$ 6,328,305	\$ 8,450,635	\$ 14,778,940

## Statement of Cash Flows

## Proprietary Funds

For the Year Ended June 30, 2004 (Continued)

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (775,409)	\$ (192,039)	\$ (967,448)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>			
Depreciation expense	201,901	213,669	415,570
(Increase) decrease in accounts receivable	87,743	121,861	209,604
(Increase) decrease in accrued interest receivable	-	-	-
Increase (decrease) in compensated absences	(4,496)	13,979	9,483
Increase (decrease) in payroll liabilities	-	-	-
Increase (decrease) in accounts payable	(4,412)	24,660	20,248
Increase (decrease) accrued interest payable	15,567	9,099	24,666
Increase (decrease) customer deposits	(399)	-	(399)
<b>Total adjustments</b>	<b>\$ 295,904</b>	<b>\$ 383,268</b>	<b>\$ 679,172</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ (479,505)</b>	<b>\$ 191,229</b>	<b>\$ (288,276)</b>

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

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006

---

**Note 1—Summary of Significant Accounting Policies:**

---

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for general purpose financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Purcellville, Virginia.

Individual Component Unit Disclosures

The Town has no component units.

Related Organizations

The Town has no related organizations.

Jointly Governed Organizations

The Town has no jointly governed organizations.

B. Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its components unit. For the most part, the effects of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Assets - The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component unit, if applicable. Governments will report all capital assets, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

**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 is 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.

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The government-wide statement of activities reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. 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. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Note 1—Summary of Significant Accounting Policies: (Continued)**

---

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

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Similar Trust Funds. The Governmental Fund measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Funds are:

General Fund

The General Fund is the general operating fund of the Town. The fund accounts for all revenues and expenditures of the Town which are not accounted for in other funds.

2. Proprietary Funds account for activities similar to those found in the private business sector. The measurement focus is upon determination of net income. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. Currently the Town's Water and Sewer Funds are accounted for as enterprise funds.

Proprietary funds distinguish operating revenues and expenses from *nonoperating items*. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The enterprise funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. Budgets and Budgetary Accounting:**

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

1. Prior to March 30, the Town Manager submits to the Town Council 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.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

---

**Note 1—Summary of Significant Accounting Policies: (Continued)**

---

D. Budgets and Budgetary Accounting: (Continued)

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 fund level. The appropriation for each fund can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that enterprise fund budgets are adopted on the modified accrual basis of accounting.
7. Appropriations lapse on June 30 for all Town units.
8. All budget data presented in the accompanying financial statements is as amended and approved by Town Council.
9. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the Town's accounting system.

E. Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

F. Investments:

Investments are stated at fair market value. Certificates of deposits, money market mutual funds and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

G. Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, infrastructure, vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not included in the capital assets of the Government-wide statements or capitalized in the proprietary funds.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets for the year ended June 30, 2006 was immaterial.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

---

Note 1—Summary of Significant Accounting Policies: (Continued)

---

G. Capital Assets: (Continued)

Depreciation for capital assets is computed over the following useful lives using the straight line method.

Buildings	50 Years
Utility Plant & Lines	50 Years
Automobiles	5-7 Years
Equipment	7-10 Years
Infrastructure	75 Years

H. Compensated Absences:

Vested or accumulated vacation leave is reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

I. Long-term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Allowance for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to approximately \$1,643 at June 30, 2006 for uncollectible local property taxes.

K. Property Taxes

Real property is assessed by Loudoun County, Virginia at its value on January 1 and is payable semi-annually on December 5th and June 5th. Personal property taxes are assessed by Loudoun County, Virginia as of January 1 and are payable on December 5th. Taxes attach as an enforceable lien as of the date assessed. The Town bills and collects its own property taxes based on the assessed values provided by the County.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

---

**Note 1—Summary of Significant Accounting Policies: (Continued)**

---

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Restricted & Unrestricted Net Assets

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

N. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

**Note 2—Deposits and Investments:**

---

Deposits:

All cash of the primary government is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan Institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments:

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

Custodial Credit Risk (Investments):

To protect the Town against potential fraud, the investment policy states that the assets of the Town shall be secured through third-party custody and safe-keeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery vs. payment procedure.

The Town's investments at June 30, 2006 were held by the Town or in the Town's name by the Town's custodial banks.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

**Note 2—Deposits and Investments:**

Credit Risk of Debt Securities:

The Town's investment policy states that no individual investments shall be undertaken that jeopardizes the capital position of the Town or does not bear the full faith and credit of the United States government or is not fully collateralized or insured.

The Town's rated debt investments as of June 30, 2006 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

**Locality's Rated Debt Investments**

<u>Rated Debt Investments Value</u>	<u>Fair Quality Ratings</u>				
	<u>AAAm</u>	<u>AAA</u>	<u>A</u>	<u>A1</u>	<u>Unrated</u>
Local Government Investment Pool	\$ 10,117,008	\$ -	\$ -	\$ -	\$ -
State Non-Arbitrage Pool	4,130,861	-	-	-	-
Total	<u>\$ 14,247,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk:

The Town does not have an investment policy regarding the concentration of credit risk.

The Town had investments at June 30, 2006, with more than 5 percent of the total in the securities underlying the Repurchase Agreement with BB&T bank, the Local Government Investment Pool and the State Non-Arbitrage Pool. These investments represented 21 percent, 56 percent and 23 percent, respectively of total investments.

Interest Rate Risk:

The Town's investment policy prohibits investing in instruments with a maturity date of greater than one year from the date of purchase.

**Investment Maturities (in years)**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10 Years +</u>
Repurchase Agreements:					
U.S. Treasuries	\$ 3,897,160	\$ 3,897,160	\$ -	\$ -	\$ -
Total	<u>\$ 3,897,160</u>	<u>\$ 3,897,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

External Investment Pools

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) are the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

**Note 3—Due from Other Governmental Units:**

County of Loudoun:	
Local Sales Tax	\$ <u>159,340</u>
Total	\$ <u><u>159,340</u></u>

**Note 4—Capital Assets:**

Governmental Funds

A summary of changes in capital assets at June 30, 2006 follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	<u>139,791</u>	<u>361,245</u>	<u>-</u>	<u>501,036</u>
Total capital assets not being depreciated	<u>\$ 189,791</u>	<u>\$ 361,245</u>	<u>\$ -</u>	<u>\$ 551,036</u>
Capital assets being depreciated:				
Buildings	\$ 1,011,268	\$ 36,612	\$ -	\$ 1,047,880
Improvements other than buildings	106,176	238,461	-	344,637
Machinery and equipment	699,613	326,905	-	1,026,518
Vehicles	332,573	188,370	-	520,943
Infrastructure	<u>46,407,414</u>	<u>-</u>	<u>-</u>	<u>46,407,414</u>
Subtotal	\$ 48,557,044	\$ 790,348	\$ -	\$ 49,347,392
Less: accumulated depreciation for:				
Buildings	\$ (352,968)	\$ (32,228)	\$ -	\$ (385,196)
Improvements other than buildings	(73,550)	(16,253)	-	(89,803)
Machinery and equipment	(445,844)	(122,284)	-	(568,128)
Vehicles	(194,436)	(85,535)	-	(279,971)
Infrastructure	<u>(14,783,816)</u>	<u>(1,049,360)</u>	<u>-</u>	<u>(15,833,176)</u>
Total Accumulated depreciation	<u>\$ (15,850,614)</u>	<u>\$ (1,305,660)</u>	<u>\$ -</u>	<u>\$ (17,156,274)</u>
Net capital assets being depreciated	<u>\$ 32,706,430</u>	<u>\$ (515,312)</u>	<u>\$ -</u>	<u>\$ 32,191,118</u>
Capital assets, net	<u><u>\$ 32,896,221</u></u>	<u><u>\$ (154,067)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 32,742,154</u></u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 4—Capital Assets: (Continued)

Enterprise Funds (Business Type Activities)

A summary of changes in capital assets at June 30, 2006 follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 842,670	\$ -	\$ -	\$ 842,670
Construction in progress	<u>1,738,603</u>	<u>1,899,906</u>	<u>1,628,019</u>	<u>2,010,490</u>
Total capital assets not being depreciate	<u>\$ 2,581,273</u>	<u>\$ 1,899,906</u>	<u>\$ 1,628,019</u>	<u>\$ 2,853,160</u>
Capital assets being depreciated:				
Utility plant in service	\$ 17,894,124	\$ 1,663,115	\$ -	\$ 19,557,239
Improvements other than buildings	445,000	-	-	445,000
Vehicles	85,399	95,361	-	180,760
Machinery and equipment	<u>90,155</u>	<u>22,930</u>	<u>-</u>	<u>113,085</u>
Subtotal	\$ 18,514,678	\$ 1,781,406	\$ -	\$ 20,296,084
Less: accumulated depreciation for:				
Utility plant in service	\$ (1,997,137)	\$ (354,455)	\$ -	\$ (2,351,592)
Improvements other than buildings	(119,500)	(20,800)	-	(140,300)
Vehicles	(60,200)	(25,457)	-	(85,657)
Machinery and equipment	<u>(30,682)</u>	<u>(14,858)</u>	<u>-</u>	<u>(45,540)</u>
Total accumulated depreciation	<u>\$ (2,207,519)</u>	<u>\$ (415,570)</u>	<u>\$ -</u>	<u>\$ (2,623,089)</u>
Net capital assets being depreciated	<u>\$ 16,307,159</u>	<u>\$ 1,365,836</u>	<u>\$ -</u>	<u>\$ 17,672,995</u>
Capital assets, net	<u>\$ 18,888,432</u>	<u>\$ 3,265,742</u>	<u>\$ 1,628,019</u>	<u>\$ 20,526,155</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 81,350
Public safety	53,451
Public works (Highways and streets)	1,170,337
Parks and recreation	<u>522</u>
Total governmental activities	<u>\$ 1,305,660</u>
Enterprise funds	<u>\$ 415,570</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 5—Long—Term Debt:

Governmental Activities:

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

Year Ending June 30,	Capital Leases		Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 3,147	\$ 74	\$ 134,566	\$ 101,752.31
2008	-	-	129,322	97,112.54
2009	-	-	133,828	92,492.42
2010	-	-	138,487	87,710.98
2011	-	-	143,400	82,760.97
2012-2016	-	-	796,321	333,203.73
2017-2021	-	-	1,430,626	177,921.23
Total	\$ <u>3,147</u>	\$ <u>74</u>	\$ <u>2,906,550</u>	\$ <u>972,954.18</u>

Changes in Long—term Obligations:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2006:

	Capital Leases	Bonds Payable	Compensated Absences	Total
Long term debt payable at July 1, 2005	\$ 45,113	\$ 731,571	\$ 192,168	\$ 968,852
Increases:				
Issuances	-	2,233,000	26,127	2,259,127
Decreases:				
Retirements	<u>41,966</u>	<u>58,021</u>	<u>-</u>	<u>99,987</u>
Long Term Debt payable at June 30, 2006	\$ <u>3,147</u>	\$ <u>2,906,550</u>	\$ <u>218,295</u>	\$ <u>3,127,992</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 5—Long—Term Debt: (Continued)

Governmental Activities: (Continued)

Details of Long-term Indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Capital Leases:		
\$24,400 Capital Lease through Xerox for copier payable in monthly installments of \$484 (including interest at 8.5%) through November 15, 2006	3,147	3,147
Sub-Total	\$ 3,147	\$ 3,147
Bonds Payable:		
\$835,133 General Obligation Refunding Bond Series 2003 dated May 22, 2003 with principal payable annually and interest payable semi-annually, bonds bearing interest at 3.27% maturing October 1, 2017	\$ 673,550	\$ 47,566
\$2,233,000 General Obligation Bond Series 2005A maturing annually in payments of \$127,853 initially with increases of \$5,000 to \$10,000 until the final installment of \$856,590 due 2020 including interest at 3.659%, interest only payments, at 3.659%, are also due annually with the amount determined by the outstanding balance.	2,233,000	87,000
Total Bonds Payable	\$ 2,906,550	\$ 134,566
Compensated Absence (Note 6)	\$ 218,295	\$ -
Total general long term obligation debt	<u>\$ 3,127,992</u>	<u>\$ 137,713</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 5—Long—Term Debt: (Continued)

Enterprise Activities:

Annual requirements to amortize the Town’s enterprise indebtedness and related interest are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2007	\$ 379,201	\$ 651,685
2008	378,130	635,221
2009	399,268	616,980
2010	415,940	597,669
2011	438,164	577,545
2012-2016	2,518,701	2,548,594
2017-2021	4,080,471	1,850,862
2022-2026	1,398,028	1,131,693
2027-2031	1,800,177	729,543
2032-2036	1,919,132	258,561
2037	31,228	130
Total	\$ <u>13,758,440</u>	\$ <u>9,598,483</u>

Changes in Long-term Obligations:

The following is a summary of long-term debt transactions of the Town’s enterprise activities for the year ended June 30, 2006:

	General Obligation Bonds	Compensated Absences	Total
Long-Term Debt payable at July 1, 2005	\$ 10,349,788	\$ 50,004	\$ 10,399,792
Increases	3,636,690	9,483	3,646,173
Retirements:			
Revenue Bonds	<u>228,038</u>	<u>-</u>	<u>228,038</u>
Long-Term Debt Payable at June 30, 2006	\$ <u>13,758,440</u>	\$ <u>59,487</u>	\$ <u>13,817,927</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 5—Long—Term Debt: (Continued)

Enterprise Activities: (Continued)

Details of Long-term Obligations:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$1,230,080 General Obligation Water and Sewer Bond, Series 1996 (Rural Development) maturing monthly in payments of \$6,299 through October 18, 2036 including 5.375% interest, payable from the water fund	\$ 1,045,040	\$ 19,903
\$7,304,000 General Obligation Water and Sewer Bond, Series 1999 (Rural Development) maturing monthly in payments of \$35,863 through June 24, 2039 including 5% interest, payable from the sewer fund	6,688,900	99,498
\$2,865,000 General Obligation Water and Sewer Bond, Series 2000 (VRA) maturing annually with principal payable at 100,000 initially, with increases in \$5,000-\$10,000 intervals until the final principal payment installments of \$240,000, due 2020 with interest rates ranging from 4.80%-5.60%, payable from the water fund	2,435,000	120,000
\$5,822,500 General Obligation Bond Series 2005B maturing in payments of \$205,470 annually initially with increases in \$5,000 to \$10,000 intervals until the final installment of \$1,376,939, due 2020 including 3.659% interest. Interest only payments, at 3.659% are also due annually in an amount determined by the outstanding bond balance. Both are payable from the water and sewer funds.	<u>3,589,500</u>	<u>139,800</u>
Total	\$ 13,758,440	\$ 379,201
Compensated Absence (Note 6)	<u>59,487</u>	<u>-</u>
Total enterprise debt	<u>\$ 13,817,927</u>	<u>\$ 379,201</u>

## TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

---

### Note 6—Claims, Judgments and Compensated Absences:

---

In accordance with GASB Statement 16 "Accounting for Compensated Absences," the Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. No benefits or pay is received for unused sick leave upon termination, except for employees who retire under VRS from the Town in good standing are paid for 25% of their sick leave balance. Accumulated vacation is paid upon termination. The Town's general fund has outstanding accrued leave pay totaling \$218,295 and the Enterprise Funds have outstanding accrued leave pay of \$59,487.

### Note 7—Defined Benefit Pension Plan:

---

#### A. Plan Description:

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

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

#### B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2006 was 10.25% of the annual covered payroll.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 7—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost and Net Pension Obligation:

The Town’s annual pension cost and net pension obligation to VRS for the current year were as follows:

Contribution rates:	
Employer	10.25%
Plan members	5.00%
Annual pension cost	\$427,003
Contributions made	\$427,003
Actuarial valuation date	06/30/05
Actuarial cost method	Entry age, normal
Amortization method	Level percentage of pay, open
Payroll growth rate	3.00%
Remaining amortization period	21 Years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return <sup>1</sup>	7.5%
Projected salary increases <sup>1</sup>	
1) Non-LEO	3.5% to 5.73%
2) LEO employees	3.5% to 4.71%
Cost-of-living adjustments	2.5%
<sup>1</sup> Includes inflation at	2.5%

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/06	\$ 427,003	100%	\$ -
06/30/05	334,222	100%	-
06/30/04	233,449	100%	-

Annual pension costs include employer contributions and employee contributions assumed by the employer.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2006 (Continued)

---

**Note 8—Deferred Revenue:**

---

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling is comprised of the following:

A. Deferred Property Tax Revenue

Deferred revenue representing deferred property tax revenues totaled \$46,173 at June 30, 2006.

**Note 9—Risk Management:**

---

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the association for its workers compensation insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the Association 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 Town continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 10—Designated Fund Balances:**

---

Fund balances have been designated for the following purposes:

Main Street corrections	\$	260,116
Future capital outlay		<u>1,675,746</u>
Total	\$	<u><u>1,935,862</u></u>

## **Required Supplementary Information**

### **Note to Required Supplementary Information:**

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

This page intentionally left blank

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
General property taxes	\$ 1,787,658	\$ 1,787,658	\$ 2,092,568	\$ 304,910
Other local taxes	2,235,000	2,235,000	2,659,820	424,820
Permits, privilege fees, and regulatory licenses	120,000	120,000	148,767	28,767
Fines and forfeitures	120,000	120,000	78,732	(41,268)
Revenue from the use of money and property	20,000	20,000	105,679	85,679
Miscellaneous	208,600	208,600	79,747	(128,853)
Intergovernmental revenues:				
Local government	89,500	89,500	89,500	-
Commonwealth	808,200	808,200	900,310	92,110
Federal	78,000	78,000	155,585	77,585
Total revenues	\$ 5,466,958	\$ 5,466,958	\$ 6,310,708	\$ 843,750
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,499,289	\$ 1,499,289	\$ 1,462,066	\$ 37,223
Public safety	1,075,992	1,075,992	1,128,938	(52,946)
Public works	2,129,732	2,220,371	2,152,098	68,273
Parks, recreation, and cultural	18,000	26,000	17,806	8,194
Community development	599,111	639,111	665,467	(26,356)
Capital projects	5,260,840	2,423,840	1,201,440	1,222,400
Debt service:				
Principal retirement	100,000	100,000	73,865	26,135
Interest and other fiscal charges	101,922	101,922	84,750	17,172
Total expenditures	\$ 10,784,886	\$ 8,086,525	\$ 6,786,430	\$ 1,300,095
Excess (deficiency) of revenues over (under) expenditures	\$ (5,317,928)	\$ (2,619,567)	\$ (475,722)	\$ 2,143,845
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ -	\$ -	\$ 17,308	\$ 17,308
Proceeds of general obligation bonds	5,005,000	2,208,000	2,233,000	25,000
Total other financing sources and uses	\$ 5,005,000	\$ 2,208,000	\$ 2,250,308	\$ 42,308
Net change in fund balances	\$ (312,928)	\$ (411,567)	\$ 1,774,586	\$ 2,186,153
Fund balances - beginning	312,928	411,567	2,298,757	1,887,190
Fund balances - ending	\$ -	\$ -	\$ 4,073,343	\$ 4,073,343

Virginia Retirement System  
 Schedule of Pension Funding Progress  
 For the Year Ended June 30, 2006

---

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a) (c)	Funded Ratio (a/b) (d)	Annual Covered Payroll (e)	UAAL as % of Covered Payroll (c/e) (f)
06/30/01	\$ 2,040,856	\$ 2,078,691	\$ 37,835	98.2%	\$ 1,514,821	2.5%
06/30/02	2,329,879	2,480,825	150,946	93.9%	1,670,623	9.0%
06/30/03	2,598,878	3,046,924	448,046	85.3%	1,966,161	22.8%
06/30/04	2,886,792	3,286,433	399,641	87.8%	2,039,284	19.6%
06/30/05	3,274,014	4,514,146	1,240,132	72.5%	2,282,942	54.3%

## **Other Supplementary Information**

This page intentionally left blank

## **Supporting Schedules**

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2006

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,616,158	\$ 1,616,158	\$ 1,845,410	\$ 229,252
Personal property taxes	160,000	160,000	223,887	63,887
Penalties and interest	11,500	11,500	23,271	11,771
Total general property taxes	<u>\$ 1,787,658</u>	<u>\$ 1,787,658</u>	<u>\$ 2,092,568</u>	<u>\$ 304,910</u>
Other local taxes:				
Local sales and use taxes	\$ 375,000	\$ 375,000	\$ 616,091	\$ 241,091
Cigarette taxes	210,000	210,000	204,105	(5,895)
Business license taxes	475,000	475,000	572,165	97,165
Utility license taxes	300,000	300,000	301,533	1,533
Auto decals	120,000	120,000	130,093	10,093
Bank franchise taxes	135,000	135,000	142,205	7,205
Cable franchise taxes	40,000	40,000	55,187	15,187
Restaurant food taxes	580,000	580,000	638,441	58,441
Total other local taxes	<u>\$ 2,235,000</u>	<u>\$ 2,235,000</u>	<u>\$ 2,659,820</u>	<u>\$ 424,820</u>
Permits, privilege fees, and regulatory licenses:				
Zoning fees	\$ 100,000	\$ 100,000	\$ 145,948	\$ 45,948
Proffers	20,000	20,000	2,819	(17,181)
Total permits, privilege fees, and regulatory licenses	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 148,767</u>	<u>\$ 28,767</u>
Fines and forfeitures:				
Police fines	\$ 120,000	\$ 120,000	\$ 78,732	\$ (41,268)
Total fines and forfeitures	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 78,732</u>	<u>\$ (41,268)</u>
Revenue from use of money and property:				
Interest	\$ 20,000	\$ 20,000	\$ 105,679	\$ 85,679
Total revenue from use of money and property	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 105,679</u>	<u>\$ 85,679</u>
Miscellaneous revenue:				
Miscellaneous	\$ 91,000	\$ 91,000	\$ 15,195	\$ (75,805)
Proceeds from sales of property	10,000	10,000	12,784	2,784
Special meetings	100	100	-	(100)
Charette donations	5,000	5,000	5,000	-
James building grant	90,000	90,000	-	(90,000)
Insurance dividend	10,000	10,000	18,969	8,969

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2005 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Community events sign	\$ 1,000	\$ 1,000	\$ 1,055	\$ 55
Law enforcement reimbursement from Loudoun County	-	-	25,556	25,556
Vehicle compensation reimbursement	1,500	1,500	1,188	(312)
Total miscellaneous revenue	<u>\$ 208,600</u>	<u>\$ 208,600</u>	<u>\$ 79,747</u>	<u>\$ (128,853)</u>
Intergovernmental revenue:				
Gasoline tax funding from Loudoun County	\$ 89,500	\$ 89,500	\$ 89,500	\$ -
Total local intergovernmental revenue	<u>\$ 89,500</u>	<u>\$ 89,500</u>	<u>\$ 89,500</u>	<u>\$ -</u>
Total revenue from local sources	<u>\$ 4,580,758</u>	<u>\$ 4,580,758</u>	<u>\$ 5,254,813</u>	<u>\$ 674,055</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 5,000	\$ 5,000	\$ 4,303	\$ (697)
Personal property tax relief funds	145,000	145,000	244,731	99,731
Total noncategorical aid	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 249,034</u>	<u>\$ 99,034</u>
Categorical aid:				
Shared expenses:				
Aid to Police	\$ 95,000	\$ 95,000	\$ 107,467	\$ 12,467
Total shared expenses	<u>\$ 95,000</u>	<u>\$ 95,000</u>	<u>\$ 107,467</u>	<u>\$ 12,467</u>
Other categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,100	\$ 100
Fire programs fund	6,000	6,000	15,178	9,178
Highway maintenance funds	549,200	549,200	518,521	(30,679)
Litter control grant	3,000	3,000	5,010	2,010
Total other categorical aid	<u>\$ 563,200</u>	<u>\$ 563,200</u>	<u>\$ 543,809</u>	<u>\$ (19,391)</u>
Total categorical aid	<u>\$ 658,200</u>	<u>\$ 658,200</u>	<u>\$ 651,276</u>	<u>\$ (6,924)</u>
Total revenue from the Commonwealth	<u>\$ 808,200</u>	<u>\$ 808,200</u>	<u>\$ 900,310</u>	<u>\$ 92,110</u>
Revenue from the federal government:				
Payments in lieu of taxes	\$ -	\$ -	\$ 2,500	\$ 2,500
Categorical aid:				
TEA 21 grant	\$ -	\$ -	\$ 121,959	\$ 121,959
NEA grant	-	-	10,000	-
Other categorical	78,000	78,000	21,126	(56,874)
Total categorical aid	<u>\$ 78,000</u>	<u>\$ 78,000</u>	<u>\$ 153,085</u>	<u>\$ (34,915)</u>
Total revenue from the federal government	<u>\$ 78,000</u>	<u>\$ 78,000</u>	<u>\$ 155,585</u>	<u>\$ (32,415)</u>
Total General Fund	<u>\$ 5,466,958</u>	<u>\$ 5,466,958</u>	<u>\$ 6,310,708</u>	<u>\$ 733,750</u>

Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2006

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
General government administration:				
Legislative:				
Town Council	\$ 43,899	\$ 43,899	\$ 42,437	\$ 1,462
General and financial administration:				
Administration	\$ 810,321	\$ 810,321	\$ 792,531	\$ 17,790
Building administration	57,300	57,300	82,758	(25,458)
Legal services	100,000	100,000	104,783	(4,783)
Independent auditor	25,000	25,000	15,180	9,820
Finance	462,769	462,769	424,377	38,392
Total general and financial administration	\$ 1,455,390	\$ 1,455,390	\$ 1,419,629	\$ 35,761
Total general government administration	\$ 1,499,289	\$ 1,499,289	\$ 1,462,066	\$ 37,223
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 979,992	\$ 979,992	\$ 1,023,760	\$ (43,768)
Fire and rescue services:				
Fire department	\$ 51,000	\$ 51,000	\$ 60,178	\$ (9,178)
Ambulance and rescue services	45,000	45,000	45,000	-
Total fire and rescue services	\$ 96,000	\$ 96,000	\$ 105,178	\$ (9,178)
Total public safety	\$ 1,075,992	\$ 1,075,992	\$ 1,128,938	\$ (52,946)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 451,500	\$ 542,139	\$ 627,105	\$ (84,966)
Administration	429,624	429,624	345,839	83,785
Total maintenance of highways, streets, bridges & sidewalks	\$ 881,124	\$ 971,763	\$ 972,944	\$ (1,181)
Maintenance of general buildings and grounds:				
General properties	\$ 848,608	\$ 848,608	\$ 774,512	\$ 74,096
Refuse	400,000	400,000	404,642	(4,642)
Total maintenance of general buildings and grounds	\$ 1,248,608	\$ 1,248,608	\$ 1,179,154	\$ 74,096
Total public works	\$ 2,129,732	\$ 2,220,371	\$ 2,152,098	\$ 72,915
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	\$ 16,000	\$ 24,000	\$ 14,548	\$ 9,452
Recreation facilities	2,000	2,000	3,258	(1,258)
Total parks and recreation	\$ 18,000	\$ 26,000	\$ 17,806	\$ 8,194
Total parks, recreation, and cultural	\$ 18,000	\$ 26,000	\$ 17,806	\$ 16,388
Community development:				
Planning and community development:				
Planning	\$ 450,774	\$ 490,774	\$ 432,738	\$ 58,036
Planning commission	16,287	16,287	14,353	1,934
Board of architectural review	5,000	5,000	-	5,000
Tree and beautification commission	5,000	5,000	-	5,000
James Building project	90,000	90,000	201,382	(111,382)
Total planning and community development	\$ 567,061	\$ 607,061	\$ 648,473	\$ (41,412)

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2006 (Continued)

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Environmental management:				
Environmental service	\$ 22,000	\$ 22,000	\$ 9,869	\$ 12,131
Board of zoning and appeals:				
Board of zoning and appeals	\$ 3,050	\$ 3,050	\$ -	\$ 3,050
Economic development:				
Economic development	\$ 7,000	\$ 7,000	\$ 7,125	\$ (125)
Total community development	\$ 599,111	\$ 639,111	\$ 665,467	\$ (26,356)
Capital projects:				
Capital Outlay	\$ 5,260,840	\$ 2,423,840	\$ 1,201,440	\$ 1,222,400
Debt service:				
Principal retirement and interest	\$ 100,000	\$ 100,000	\$ 73,865	\$ 26,135
Interest and other fiscal charges	101,922	101,922	84,750	17,172
Total debt service	\$ 201,922	\$ 201,922	\$ 158,615	\$ 43,307
Total General Fund	\$ 10,784,886	\$ 8,086,525	\$ 6,786,430	\$ 1,312,931

## Schedule of Revenues and Expenses - Budget and Actual

## Water Fund

For the Year Ended June 30, 2006

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Water Fund:</b>				
Operating Revenues:				
Water meter fees	\$ 23,500	\$ 23,500	\$ 16,067	\$ (7,433)
Water fees	719,000	719,000	750,759	31,759
Miscellaneous income	12,650	12,650	15,424	2,774
Service charge	24,000	24,000	18,587	(5,413)
Penalties and interest	12,000	12,000	13,326	1,326
Water flushing	5,000	5,000	2,447	(2,553)
Proffers	40,000	40,000	-	(40,000)
	<u>836,150</u>	<u>836,150</u>	<u>816,610</u>	<u>(19,540)</u>
Total operating revenues	\$ 836,150	\$ 836,150	\$ 816,610	\$ (19,540)
Operating expenses:				
Personnel:				
Water Staff	\$ 407,500	\$ 407,500	\$ 396,538	\$ 10,962
Overtime - Water	37,000	37,000	44,791	(7,791)
Plant Operations:				
Electricity	22,000	22,000	23,156	(1,156)
Telephone	6,950	6,950	4,319	2,631
Supplies	-	-	16,478	(16,478)
Lab Equipment	7,500	7,500	-	7,500
Contracts	10,000	10,000	1,848	8,152
Uniforms	7,450	7,450	5,434	2,016
Safety	10,450	10,450	15,950	(5,500)
Cross connections	500	500	127	373
Plant repairs	41,000	41,000	38,138	2,862
Water line repairs	20,000	20,000	37,015	(17,015)
Leak detection	3,000	3,000	3,213	(213)
Meter repairs & testing	5,000	5,000	4,649	351
New water meters	70,000	70,000	33,535	36,465
Computer upgrades	3,200	3,200	1,670	1,530
Chemicals - plant	5,000	5,000	36,409	(31,409)
Generator WTP	-	-	3,580	(3,580)
Permits	3,000	3,000	40	2,960
Touch read HDW & SFTW	8,500	8,500	5,219	3,281

## Schedule of Revenues and Expenses - Budget and Actual

## Water Fund

For the Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Water Fund: (Continued)</b>				
Operating expenses: (Continued)				
Public education	3,000	3,000	3,367	(367)
VDH operations fee	34,000	34,000	5,093	28,907
Well Operations:				
Electricity	30,000	30,000	38,414	(8,414)
Telephone	3,000	3,000	838	2,162
Supplies	33,500	33,500	15,594	17,906
Contracts	4,000	4,000	198	3,802
Spare parts	3,000	3,000	1,090	1,910
Repairs	30,000	30,000	25,032	4,968
Chemicals	12,000	12,000	12,774	(774)
Carbon change-out	24,000	24,000	16,913	7,087
Equipment and vehicles expenses:				
New equipment & tools	40,000	40,000	32,545	7,455
Vehicle repairs	-	-	5,599	(5,599)
Gas and oil	7,500	7,500	16,542	(9,042)
Propane	4,000	4,000	1,360	2,640
Other:				
Advertisements	5,900	5,900	4,911	989
Water samples	25,000	25,000	26,744	(1,744)
Training	8,050	8,050	3,925	4,125
Dues & subscriptions	-	-	45	(45)
Consumer reports	3,500	3,500	2,900	600
General expenses	3,500	3,500	796	2,704
Postage/mailings	3,500	3,500	5,483	(1,983)
Miscellaneous	-	-	231	(231)
Engineering	30,000	30,000	151,510	(121,510)
Watershed management	3,000	3,000	36	2,964
Forestry management	3,000	3,000	-	3,000
Envir Audit & Comp	10,000	10,000	13,292	(3,292)
Mowing	10,000	10,000	10,573	(573)
Administrative supplies	11,000	11,000	-	11,000

## Schedule of Revenues and Expenses - Budget and Actual

## Water Fund

For the Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Water Fund: (Continued)</b>				
Operating expenses: (Continued)				
Water department emergency	\$ 3,500	\$ 3,500	\$ -	\$ 3,500
Small projects	-	-	159,861	(159,861)
Employee benefits:				
Health insurance	64,352	64,352	62,507	1,845
Retirement	48,070	48,070	54,543	(6,473)
Workers' compensation	13,969	13,969	10,254	3,715
Payroll taxes	44,112	44,112	33,268	10,844
Performance bonuses	5,000	5,000	-	5,000
Drug testing	2,530	2,530	230	2,300
Deferred compensation match	-	-	1,541	(1,541)
Depreciation	-	-	201,901	(201,901)
Total operating expenses	<u>\$ 1,194,033</u>	<u>\$ 1,194,033</u>	<u>\$ 1,592,019</u>	<u>\$ (397,986)</u>
Operating income (loss)	<u>\$ (357,883)</u>	<u>\$ (357,883)</u>	<u>\$ (775,409)</u>	<u>\$ (417,526)</u>
Nonoperating revenues (expenses):				
Interest earned	\$ 20,000	\$ 20,000	\$ 236,169	\$ 216,169
Cellular lease	100,000	100,000	114,575	14,575
Bond issuance costs	-	-	(12,346)	(12,346)
Interest expense	-	-	(241,204)	(241,204)
Total nonoperating revenues (expenses)	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 97,194</u>	<u>\$ (22,806)</u>
Net income (loss) before operating transfers and contributions	<u>\$ (237,883)</u>	<u>\$ (237,883)</u>	<u>\$ (678,215)</u>	<u>\$ (440,332)</u>
Other financing sources (uses):				
Contributed capital - availability fees	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ (530,000)
Transfers out	-	-	(8,654)	(8,654)
Total operating transfers	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 461,346</u>	<u>\$ (538,654)</u>
Net income	<u>\$ 762,117</u>	<u>\$ 762,117</u>	<u>\$ (216,869)</u>	<u>\$ (978,986)</u>

## Schedule of Revenues and Expenses - Budget and Actual

## Sewer Fund

For the Year Ended June 30, 2006

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Sewer Fund:</b>				
Operating Revenues:				
Sewer fees	\$ 1,025,000	\$ 1,025,000	\$ 1,043,190	\$ 18,190
Penalties and interest	12,000	12,000	13,326	1,326
Service charge	24,000	24,000	17,698	(6,302)
Miscellaneous income	3,700	3,700	32,434	28,734
Proffers	75,000	75,000	26,000	(49,000)
Total operating revenues	<u>\$ 1,139,700</u>	<u>\$ 1,139,700</u>	<u>\$ 1,132,648</u>	<u>\$ (7,052)</u>
Operating expenses:				
Personnel:				
Sewer Staff	\$ 483,426	\$ 483,426	\$ 515,697	\$ (32,271)
Overtime - Sewer	25,000	25,000	21,216	3,784
Plant Operations:				
Electricity	70,000	70,000	81,878	(11,878)
Telephone	11,000	11,000	5,034	5,966
Supplies	18,600	18,600	10,924	7,676
Plant supplies	2,500	2,500	1,621	879
Contracts	-	-	11,650	(11,650)
Permits	7,000	7,000	856	6,144
Uniforms	8,300	8,300	8,405	(105)
Plant repairs	22,000	22,000	27,001	(5,001)
Sewer line repairs	25,000	25,000	11,431	13,569
Safety	13,750	13,750	11,688	2,062
I and I detection	-	-	18	(18)
New equipment & tools	3,500	3,500	6,671	(3,171)
Sludge removal	30,000	30,000	66,431	(36,431)
Chemicals	6,000	6,000	9,900	(3,900)
Lab certification	2,000	2,000	2,020	(20)
Sample analysis	5,000	5,000	5,519	(519)
Waste disposal	-	-	1,257	(1,257)
Pump station operations:				
Electricity	12,750	12,750	17,030	(4,280)
Telephone	1,500	1,500	546	954
Repairs	20,000	20,000	18,105	1,895
Contracts	17,500	17,500	761	16,739
Equipment	7,500	7,500	7,396	104
Equipment and vehicles expenses:				
Equipment - plant	20,000	20,000	12,409	7,591
Gas and oil	2,750	2,750	1,777	973

## Schedule of Revenues and Expenses - Budget and Actual

## Sewer Fund

For the Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Sewer Fund: (Continued)</b>				
Vehicle repairs	\$ 7,500	\$ 7,500	\$ 5,147	\$ 2,353
Dues & subscriptions	750	750	554	196
Advertisements	3,100	3,100	1,729	1,371
Training	5,000	5,000	-	5,000
Postage/mailings	3,500	3,500	8,058	(4,558)
Engineering	30,000	30,000	23,622	6,378
Mowing	10,000	10,000	10,764	(764)
Envir Audit & Comp	12,000	12,000	2,969	9,031
Sewer department emergency	-	-	1,523	(1,523)
Small projects	9,000	9,000	991	8,009
Administrative supplies	-	-	52	(52)
Public education	1,500	1,500	750	750
<b>Employee benefits:</b>				
Health insurance	54,592	54,592	71,185	53,842
Retirement	51,779	51,779	73,782	(22,003)
Workers' compensation	9,365	9,365	8,232	1,133
Payroll taxes	56,555	56,555	39,997	16,558
Performance bonuses	6,000	6,000	-	6,000
Drug testing	300	300	180	120
Deferred compensation match	2,600	2,600	3,319	(719)
Depreciation	-	-	213,669	(213,669)
Total operating expenses	<u>\$ 1,078,617</u>	<u>\$ 1,078,617</u>	<u>\$ 1,324,687</u>	<u>\$ (175,635)</u>
Operating income	<u>\$ 61,083</u>	<u>\$ 61,083</u>	<u>\$ (192,039)</u>	<u>\$ (182,687)</u>
<b>Nonoperating revenues (expenses):</b>				
Interest earned	\$ 40,000	\$ 40,000	\$ 297,080	\$ 257,080
BSWF study grant	40,000	40,000	-	(40,000)
Bond issuance costs	-	-	(11,117)	(11,117)
Interest expense	-	-	(368,785)	(368,785)
Total nonoperating revenues (expenses)	<u>\$ 80,000</u>	<u>\$ 80,000</u>	<u>\$ (82,822)</u>	<u>\$ (162,822)</u>
Net income before operating transfers	<u>\$ 141,083</u>	<u>\$ 141,083</u>	<u>\$ (274,861)</u>	<u>\$ (345,509)</u>
<b>Other financing sources (uses):</b>				
Contributed capital - availability fees	\$ 900,000	\$ 900,000	\$ 423,000	\$ (477,000)
Transfers out	-	-	(8,654)	(8,654)
Total operating transfers	<u>\$ 900,000</u>	<u>\$ 900,000</u>	<u>\$ 414,346</u>	<u>\$ (485,654)</u>
Net income	<u>\$ 1,041,083</u>	<u>\$ 1,041,083</u>	<u>\$ 139,485</u>	<u>\$ (831,163)</u>

Capital Assets Used in the Operation of Governmental Funds  
 Comparative Schedules by Source  
 For the Year Ended June 30, 2006

---

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Land	\$ 50,000	\$ 50,000
Buildings	1,047,880	1,011,268
Improvements other than buildings	344,637	88,887
Machinery and equipment	1,026,518	714,615
Vehicles	520,943	317,571
Infrastructure	46,407,414	46,424,703
Construction in progress	<u>501,036</u>	<u>139,791</u>
Total governmental funds capital assets	<u>\$ 49,898,428</u>	<u>\$ 48,746,835</u>
Investments in governmental funds capital assets by source:		
General fund	<u>\$ 49,898,428</u>	<u>\$ 48,746,835</u>
Total governmental funds capital assets	<u>\$ 49,898,428</u>	<u>\$ 48,746,835</u>

TOWN OF PURCELLVILLE, VIRGINIA

Capital Assets Used in the Operation of Governmental Funds  
 Schedule by Function and Activity  
 For the Year Ended June 30, 2006

Function and Activity	Land	Construction in Progress	Buildings
General government administration:			
Town council	\$ 50,000	\$ 63,674	\$ 903,128
Finance and administration	-	-	-
Total general government administration	\$ 50,000	\$ 63,674	\$ 903,128
Public safety:			
Police department	-	2,374	-
Total public safety	-	2,374	-
Public works:			
Highways and roads	-	434,988	144,752
Maintenance of buildings and grounds	-	-	-
Total public works	-	434,988	144,752
Parks, recreation, and cultural:			
Parks and recreation	-	-	-
Total parks, recreation, and cultural	-	-	-
Total governmental funds capital assets	\$ 50,000	\$ 501,036	\$ 1,047,880

<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Infrastructure</u>	<u>Total</u>
\$ -	\$ 23,764	\$ 25,392	\$ -	\$ 1,065,958
-	281,654	149,360	-	431,014
<u>-</u>	<u>305,418</u>	<u>174,752</u>	<u>-</u>	<u>1,496,972</u>
<u>\$ 3,850</u>	<u>\$ 156,980</u>	<u>\$ 204,802</u>	<u>\$ -</u>	<u>\$ 368,006</u>
<u>\$ 3,850</u>	<u>\$ 156,980</u>	<u>\$ 204,802</u>	<u>\$ -</u>	<u>\$ 368,006</u>
\$ 330,339	\$ 68,800	\$ 141,389	\$ 46,407,414	\$ 47,527,682
-	495,320	-	-	495,320
<u>\$ 330,339</u>	<u>\$ 564,120</u>	<u>\$ 141,389</u>	<u>\$ 46,407,414</u>	<u>\$ 48,023,002</u>
<u>\$ 10,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,448</u>
<u>\$ 10,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,448</u>
<u><u>\$ 344,637</u></u>	<u><u>\$ 1,026,518</u></u>	<u><u>\$ 520,943</u></u>	<u><u>\$ 46,407,414</u></u>	<u><u>\$ 49,898,428</u></u>

Capital Assets Used in the Operation of Governmental Funds  
 Schedule of Changes By Function and Activity  
 For the Year Ended June 30, 2006

Function and Activity	Governmental Funds Capital Assets July 1, 2005	Additions	Deductions	Governmental Funds Capital Assets June 30, 2006
General government administration:				
Town council	\$ 982,776	\$ 83,182	\$ -	\$ 1,065,958
Finance and administration	<u>308,750</u>	<u>122,264</u>	<u>-</u>	<u>431,014</u>
Total general government administration	<u>\$ 1,291,526</u>	<u>\$ 205,446</u>	<u>\$ -</u>	<u>\$ 1,496,972</u>
Public safety:				
Police department	<u>\$ 248,384</u>	<u>\$ 119,622</u>	<u>\$ -</u>	<u>\$ 368,006</u>
Total public safety	<u>\$ 248,384</u>	<u>\$ 119,622</u>	<u>\$ -</u>	<u>\$ 368,006</u>
Public works:				
Highways and roads	\$ 46,851,825	\$ 675,857	\$ -	\$ 47,527,682
Maintenance of buildings and grounds	<u>355,100</u>	<u>140,220</u>	<u>-</u>	<u>495,320</u>
Total public works	<u>\$ 47,206,925</u>	<u>\$ 816,077</u>	<u>\$ -</u>	<u>\$ 48,023,002</u>
Parks, recreation, and cultural:				
Parks and recreation	<u>\$ -</u>	<u>\$ 10,448</u>	<u>\$ -</u>	<u>\$ 10,448</u>
Total parks, recreation, and cultural	<u>\$ -</u>	<u>\$ 10,448</u>	<u>\$ -</u>	<u>\$ 10,448</u>
Total governmental funds capital assets	<u><u>\$ 48,746,835</u></u>	<u><u>\$ 1,151,593</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 49,898,428</u></u>

## **Other Statistical Information**

Net Assets by Component  
 Last Three Fiscal Years  
*(accrual basis of accounting)*

	Fiscal Year		
	2004	2005	2006
Governmental activities			
Invested in capital assets, net of related debt	\$ 33,014,931	\$ 32,119,537	\$ 31,508,203
Unrestricted	<u>2,233,102</u>	<u>2,137,252</u>	<u>2,199,446</u>
Total governmental activities net assets	<u>\$ 35,248,033</u>	<u>\$ 34,256,789</u>	<u>\$ 33,707,649</u>
Business-type activities			
Invested in capital assets, net of related debt	\$ 7,394,123	\$ 8,538,644	\$ 9,222,830
Unrestricted	<u>12,287,315</u>	<u>12,838,372</u>	<u>12,076,802</u>
Total business-type activities net assets	<u>\$ 19,681,438</u>	<u>\$ 21,377,016</u>	<u>\$ 21,299,632</u>
Primary government			
Invested in capital assets, net of related debt	\$ 40,409,054	\$ 40,658,181	\$ 40,731,033
Unrestricted	<u>14,520,417</u>	<u>14,975,624</u>	<u>14,276,248</u>
Total primary government net assets	<u>\$ 54,929,471</u>	<u>\$ 55,633,805</u>	<u>\$ 55,007,281</u>

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34

Changes in Net Assets  
Last Three Fiscal Years  
(accrual basis of accounting)

	Fiscal Year		
	2004	2005	2006
<b>Expenses</b>			
Governmental activities:			
General government	\$ 1,824,860	\$ 1,450,167	\$ 1,451,606
Public safety	613,440	987,686	1,367,893
Public works	2,587,276	2,979,121	3,474,333
Parks, recreation and cultural	-	17,077	32,704
Community development	-	451,194	455,350
Interest on long-term debt	35,466	28,853	104,799
Total governmental activities expenses	\$ 5,061,042	\$ 5,914,098	\$ 6,886,685
Business-type activities:			
Water	\$ 1,228,332	\$ 1,221,858	\$ 1,845,569
Sewer	1,314,089	1,531,506	1,704,589
Total business-type activities expenses	\$ 2,542,421	\$ 2,753,364	\$ 3,550,158
Total primary government expenses	\$ 7,603,463	\$ 8,667,462	\$ 10,436,843
<b>Program Revenues</b>			
Governmental activities:			
Charges for services:			
General government	\$ 114,249	\$ 175,596	\$ 145,948
Public works	22,015	2,500	2,819
Operating grants and contributions	504,620	114,921	233,193
Capital grants and contributions	434,452	342,297	518,521
Total governmental activities program revenues	\$ 1,075,336	\$ 635,314	\$ 900,481
Business-type activities:			
Charges for services:			
Water	\$ 690,778	\$ 829,368	\$ 801,186
Sewer	910,338	1,142,949	1,100,214
Operating grants and contributions	11,101	-	-
Capital grants and contributions	5,419,597	2,199,000	893,000
Total business-type activities program revenues	\$ 7,031,814	\$ 4,171,317	\$ 2,794,400
Total primary government program revenues	\$ 8,107,150	\$ 4,806,631	\$ 3,694,881
Net (expense) / revenue			
Governmental activities	\$ (3,985,706)	\$ (5,278,784)	\$ (5,986,204)
Business-type activities	4,489,393	1,417,953	(755,758)
Total primary government net expense	\$ 503,687	\$ (3,860,831)	\$ (6,741,962)

Changes in Net Assets  
Last Three Fiscal Years (Continued)  
(accrual basis of accounting)

	Fiscal Year		
	2004	2005	2006
<b>General Revenues and Other Changes in Net Assets</b>			
Governmental activities:			
Taxes			
Property taxes	\$ 1,373,678	\$ 1,677,627	\$ 2,102,097
Local sales and use taxes	352,816	404,052	616,091
Restaurant food taxes	351,554	459,910	638,441
Consumer utility taxes	259,332	287,238	301,533
Business licenses taxes	456,957	585,062	572,165
Other local taxes	433,242	488,405	531,590
Fines and forfeitures	59,282	66,885	78,732
Unrestricted grants and contributions	202,229	194,092	400,881
Unrestricted revenues from use of money and property	16,693	29,961	105,679
Miscellaneous	64,465	76,994	72,547
Transfers	20,359	17,314	17,308
<b>Total governmental activities</b>	<b>\$ 3,590,607</b>	<b>\$ 4,287,540</b>	<b>\$ 5,437,064</b>
Business-type activities:			
Miscellaneous	\$ 112,717	\$ 119,670	\$ 162,433
Unrestricted revenues from use of money and property	50,894	175,270	533,249
Transfers	(20,359)	(17,314)	(17,308)
<b>Total business-type activities</b>	<b>\$ 143,252</b>	<b>\$ 277,626</b>	<b>\$ 678,374</b>
<b>Total primary government</b>	<b>\$ 3,733,859</b>	<b>\$ 4,565,166</b>	<b>\$ 6,115,438</b>
<b>Change in Net Assets</b>			
Governmental activities	\$ (395,099)	\$ (991,244)	\$ (549,140)
Business-type activities	4,632,645	1,695,579	(77,384)
<b>Total primary government</b>	<b>\$ 4,237,546</b>	<b>\$ 704,335</b>	<b>\$ (626,524)</b>

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34

Governmental Activities Tax Revenues by Source  
 Last Three Fiscal Years  
*(accrual basis of accounting)*

---

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Local sales and use Tax</u>	<u>Consumer Utility Tax</u>	<u>Restaurant Food Tax</u>	<u>Business License Tax</u>	<u>Total</u>
2006	\$ 2,102,097	\$ 616,091	\$ 301,533	\$ 638,441	\$ 572,165	4,230,327
2005	1,677,627	404,052	287,238	459,910	585,062	3,413,889
2004	1,373,678	352,816	259,332	351,554	456,957	2,794,337

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34

Fund Balances of Governmental Funds  
 Last Four Fiscal Years  
*(modified accrual basis of accounting)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund:				
Unreserved	\$ 1,923,287	\$ 2,363,474	\$ 2,298,757	\$ 4,073,343
Total general fund	<u>\$ 1,923,287</u>	<u>\$ 2,363,474</u>	<u>\$ 2,298,757</u>	<u>\$ 4,073,343</u>

Changes in Fund Balances of Governmental Funds  
Last Four Fiscal Years  
(modified accrual basis of accounting)

	2003	2004	2005	2006
<b>Revenues</b>				
General property taxes	\$ 1,168,307	\$ 1,369,653	\$ 1,663,988	\$ 2,092,568
Other local taxes	1,613,577	1,853,901	2,224,667	2,659,820
Permits, privilege fees and regulatory licenses	276,743	136,264	178,096	148,767
Fines and forfeitures	36,791	59,282	66,885	78,732
Revenue from use of money and property	24,221	16,693	29,961	105,679
Miscellaneous	70,547	64,465	76,994	79,747
Pass-through grant	505,666	-	-	-
Intergovernmental:				
Local government	-	400,000	-	89,500
Commonwealth	415,947	702,094	636,121	900,310
Federal	176,275	39,207	15,189	155,585
<b>Total revenues</b>	<b>\$ 4,288,074</b>	<b>\$ 4,641,559</b>	<b>\$ 4,891,901</b>	<b>\$ 6,310,708</b>
<b>Expenditures</b>				
General government administration	\$ 1,657,140	\$ 1,795,888	\$ 1,225,017	\$ 1,462,066
Public safety	650,147	587,969	921,222	1,128,938
Public works	1,066,145	1,411,398	1,707,738	2,152,098
Parks, recreation and cultural	-	-	17,077	17,806
Community development	-	-	431,104	665,467
Capital projects	419,826	300,707	558,864	1,201,440
Pass-through grant	505,666	-	-	-
Debt service				
Principal	53,844	96,648	84,370	73,865
Interest and other fiscal charges	60,845	29,121	29,217	84,750
<b>Total expenditures</b>	<b>\$ 4,413,613</b>	<b>\$ 4,221,731</b>	<b>\$ 4,974,609</b>	<b>\$ 6,786,430</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$ (125,539)</b>	<b>\$ 419,828</b>	<b>\$ (82,708)</b>	<b>\$ (475,722)</b>
<b>Other financing sources (uses)</b>				
Transfers in	\$ 17,590	\$ 20,359	\$ 17,314	\$ 17,308
Refunding bonds issued	835,133	-	-	-
Bonds issued	-	-	-	2,233,000
Payments to refunded bond escrow agent	(835,133)	-	-	-
<b>Total other financing sources (uses)</b>	<b>\$ 17,590</b>	<b>\$ 20,359</b>	<b>\$ 17,314</b>	<b>\$ 2,250,308</b>
<b>Net change in fund balances</b>	<b>\$ (107,949)</b>	<b>\$ 440,187</b>	<b>\$ (65,394)</b>	<b>\$ 1,774,586</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>2.96%</b>	<b>3.31%</b>	<b>2.64%</b>	<b>2.92%</b>

General Governmental Tax Revenues by Source  
 Last Four Fiscal Years  
*(modified accrual basis of accounting)*

---

Fiscal Year	Property Tax	Local sales and use Tax	Consumer Utility Tax	Motor Vehicle License Tax	Restau-rant Food Tax	Business License Tax	Total
2006	\$ 2,092,568	\$ 616,091	\$ 301,533	\$ 130,093	\$ 638,441	\$ 572,165	\$ 4,350,891
2005	1,663,988	404,052	287,238	124,902	459,910	585,062	3,525,152
2004	1,369,653	352,816	259,332	108,322	351,554	456,957	2,898,634
2003	1,168,307	328,193	230,107	90,768	339,569	379,268	2,536,212

Assessed Value and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Public Service	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2006	\$ 1,019,172,825	\$ 49,728,198	\$ 9,652,257	\$ 1,078,553,280	\$ 1,078,553,280	100.00%
2005	739,972,175	36,787,240	9,280,605	786,040,020	786,040,020	100.00%
2004	568,438,265	31,157,197	10,493,964	610,089,426	610,089,426	100.00%
2003	452,511,560	26,962,736	8,750,945	488,225,241	488,225,241	100.00%
2002	411,026,000	23,590,902	10,419,804	445,036,706	445,036,706	100.00%
2001	313,513,634	20,803,922	7,885,696	342,203,252	342,203,252	100.00%
2000	251,437,692	17,044,884	6,975,208	275,457,784	275,457,784	100.00%
1999	215,680,750	13,225,209	5,448,750	234,354,709	234,354,709	100.00%
1998	203,342,106	12,243,331	5,231,916	220,817,353	220,817,353	100.00%
1997	184,164,720	12,149,080	5,219,047	201,532,847	201,532,847	100.00%

Source: Commissioner of Revenue of Loudoun County

Property Tax Rates (1)  
Direct and Overlapping Governments  
Last Ten Fiscal Years

Fiscal Years	Direct Rates				
	Real Estate	Personal Property	Volunteers	Machinery and Tools	Merchants' Capital
2006	\$ 0.17	\$ 1.05	\$ 0.01	\$ 0.55	\$ 0.55
2005	0.20	1.05	0.01	0.55	0.55
2004	0.22/0.21	1.05	0.01	0.55	0.55
2003	0.24/0.22	1.05	0.01	0.55	0.55
2002	0.24	1.05	0.01	0.55	0.55
2001	0.24	1.05	0.01	0.55	0.55
2000	0.24	1.05	0.01	1.05	1.05
1999	0.24	1.05	0.01	1.05	1.05
1998	0.24	1.05	0.01	1.05	1.05
1997	0.24	1.05	0.01	1.05	1.05

(1) Per \$100 of assessed value

Principal Property Taxpayers  
Current Year and the Period Nine Years Prior

Taxpayer	Type Business	Fiscal Year 2006		Fiscal Year 1997	
		2006 Assessed Valuation	% of Total Assessed Valuation	1997 Assessed Valuation	% of Total Assessed Valuation
ZP No. 124, LLC	Giant Grocery store	\$ 11,645,000	1.08%	\$ 881,600	0.44%
Purcellville Shopping Center, LLC	Shopping center	9,174,300	0.85%	3,536,500	1.75%
S R B Enterprises, LLC	Shopping center	5,365,800	0.50%	2,586,300	1.28%
Maple Avenue Apartments, LP	Rental property	5,354,800	0.50%	1,483,600	0.74%
Main Street Associates, LLC	Rental property	5,041,500	0.47%	348,200	0.17%
Purcellville Plaza, LLC	Shopping center	4,376,400	0.41% *	-	0
Jordan River Acquisitions, LLC	House on 15.58 acres	4,174,600	0.39%	692,130	0.34%
Loudoun Medical Property Management, LLC	Medical building	3,869,000	0.36%	302,900	0.15%
Loudoun Valley Investments, LC	Loudoun Lumber	3,154,200	0.29%	179,900	0.09%
Brown, Lillian H. Estate	Vacant land, 35.81 acres	2,864,800	0.27%	23,640	0.01%
		<u>\$ 55,020,400</u>	<u>1.47%</u>	<u>\$ 10,034,770</u>	<u>0.27%</u>

\* This parcel not listed before 1998.

Source: Commissioner of Revenue of Loudoun County

Ratios of Outstanding Debt by Type  
Last Five Fiscal Years

Fiscal Years	Governmental Activities		Business-Type Activities		Total Primary Government	Per Capita (1)
	General	Capital	General			
	Obligation Bonds	Leases	Obligation Bonds			
2006	\$ 2,906,550	\$ 3,147	\$ 13,758,440	\$	16,668,137	\$ 2,614
2005	731,571	45,113	10,349,788		11,126,472	1,819
2004	776,173	84,881	10,277,168		11,138,222	2,061
2003	835,133	122,569	10,386,483		11,344,185	2,421
2002	825,506	158,264	10,266,131		11,249,901	2,798

Note: Debt information is only available back to 2002.

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics - Table 16

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

Fiscal Year	Gross Bonded Debt	Less: Amounts Reserved for Debt Service	Net Bonded Debt (3)	Ratio of Net General Obligation Debt to Assessed Value (2)	Net Bonded Debt per Capita (1)
2006	\$ 2,906,550	\$ -	\$ 2,906,550	0.27%	\$ 456
2005	731,571	-	731,571	0.09%	120
2004	776,173	-	776,173	0.13%	144
2003	835,133	-	835,133	0.17%	178
2002	825,506	-	825,506	0.19%	205
2001	845,783	-	845,783	0.25%	220
2000	864,741	-	864,741	0.31%	237
1999	882,464	-	882,464	0.38%	314
1998	898,811	-	898,811	0.41%	351
1997	904,685	-	904,685	0.45%	384

(1) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 16

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 7

(3) Includes all long-term general obligation bonded debt, Literary Fund Loans, excludes revenue bonds, capital leases, and compensated absences.

TOWN OF PURCELLVILLE, VIRGINIA

Legal Debt Margin Information  
Last Ten Fiscal Years

	Fiscal Year				
	1997	1998	1999	2000	2001
Debt limit	\$ 20,153,285	\$ 22,081,735	\$ 23,435,471	\$ 27,545,778	\$ 34,220,325
Total net debt applicable to limit	904,685	898,811	882,464	864,741	845,783
Legal debt margin	\$ 19,248,600	\$ 21,182,924	\$ 22,553,007	\$ 26,681,037	\$ 33,374,542
Total net debt applicable to the limit as a percentage of debt limit	4.49%	4.07%	3.77%	3.14%	2.47%

Table 12

Fiscal Year				
2002	2003	2004	2005	2006
\$ 44,503,671	\$ 48,822,524	\$ 61,008,943	\$ 78,604,002	\$ 107,855,328
825,506	835,133	776,173	731,571	2,906,550
<u>\$ 43,678,165</u>	<u>\$ 47,987,391</u>	<u>\$ 60,232,770</u>	<u>\$ 77,872,431</u>	<u>\$ 104,948,778</u>
1.85%	1.71%	1.27%	0.93%	2.69%

Legal Debt Margin Calculation for Fiscal Year 2006

Total assessed value	\$ 1,078,553,280
Debt limit (10% of total assessed value)	107,855,328
Net debt applicable to limit	<u>2,906,550</u>
Legal debt margin	<u>\$ 104,948,778</u>

This page intentionally left blank

## **Compliance**

This page intentionally left blank

# 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

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL  
TOWN OF PURCELLVILLE, VIRGINIA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Purcellville, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the Town of Purcellville, Virginia's basic financial statements and have issued our report thereon dated August 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Purcellville, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Purcellville, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Town Council and management and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
August 23, 2006

This page intentionally left blank