

# **TOWN OF CULPEPER, VIRGINIA**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2016**

**TREASURER'S OFFICE**

# **TOWN OF CULPEPER, VIRGINIA**

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## INTRODUCTORY SECTION

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# **TOWN OF CULPEPER**

## **TREASURERS OFFICE**

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(540) 829-8220 • FAX (540) 829-8239  
[www.culpeperva.gov](http://www.culpeperva.gov)

November 1, 2016

To The Citizens of the Town of Culpeper:

In accordance with local ordinances and state statutes, the Town of Culpeper hereby submits the audited Comprehensive Annual Financial Report (CAFR) on its financial position and activities for the fiscal year ended June 30, 2016. This report was audited by the independent certified public accounting firm of Brown Edwards & Company, and the responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner that presents fairly the financial position and results of operations of the Town's various funds, and component units. All necessary disclosures have been included to enable the reader to gain an understanding of the financial activities of the Town.

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

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

The Town of Culpeper provides a full range of services to its citizens including government administration; police protection; sanitation; the construction and maintenance of highways, streets, and infrastructure; general engineering; and planning and community development. In addition, the Town contributes to volunteer fire and rescue departments, economic and tourism development programs, cultural events, recreational activities and other civic and community service non-profit organizations. The Town also operates and manages electric, water, and sewer utilities, that serve approximately 8,100 customers.

### **ECONOMIC CONDITION AND OUTLOOK**

Population growth has been a continued theme during the last several years for the Town, but the population grew at a slower rate during the last few years. The Town is positioned in the D.C./Northern Virginia growth ring with a potentially steady population increase during the next two decades. This growth trend is changing the face of the Town to that of a regional marketing area and commuter-oriented town. Culpeper is recognized regionally and statewide as a healthy and growing market. The prior year's growth and development shows that new opportunities exist for businesses that have either located in or are considering building in the area. The unemployment rate for Culpeper dropped from 4.5 percent in June 2015 to 3.7 percent in June 2016, matching the state average.

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

Governmental Fund budget. The Town faces many challenges in the coming years to address the demands on capital facilities and operations of a growing population. The Town and County have worked diligently over the past few years in their ongoing discussion of water and sewer services outside Town boundaries.

## **MAJOR INITIATIVES IN FY16**

FY16 brought a continued focus on improvements to the Town operations and the continuing focus on planning for the future of our growing community. The following either began or continued during this past fiscal year:

- Culpeper 20/20 Strategic Vision Plan – The first year of the Culpeper 20/20 Strategic Vision Plan was completed during FY16. The plan examined 6 focus areas that were identified in Culpeper. The plan identified 6 projects to be further developed starting in FY16. A complete copy of the Culpeper 20/20 Strategic Vision Plan can be found on the Town website. The Culpeper 20/20 Strategic Vision Plan is anticipated to be updated in FY17 with a focus on a Downtown Masterplan as well as further development of projects identified in FY16.
- Dam Repairs – In FY15, the Town received \$10.7 million in grant monies from the Natural Resources Conservation Service (NCRS) to complete the planning, design and construction work necessary to upgrade the Lake Pelham and Mountain Run Lake dams to be able to pass the design storm event for high hazard dams. In FY17, the Town received an additional matching grant from the Virginia General Assembly through the Department of Conservation and Recreation in the amount of \$2.9 million. Upgrades to the Lake Pelham and Mountain Run Lake dams were required as a result of changes in Virginia dam safety regulation and a requirement of the Town's conditional operating permits for both dams. Design began in FY16 will continue in FY17 with construction anticipated to be completed in FY19.
- North Main Street Roundabout – This roundabout was improved to incorporate a variety of trees, shrubs, perennials, and sedums.
- Spring Street Property – During FY16 work began on returning these abandoned utility buildings to a stable shell condition. Additionally, site improvements were initiated to improve safety and security on the site as well as add a master gardener demonstration garden. Work continues in FY17 toward returning these utility buildings to a stable shell condition.
- Groundwater Development – During FY16 design was completed to connect three additional portable water wells into the water system with construction anticipated to be complete in FY17. Once complete these wells will serve as a supplemental and emergency water supply for the community.
- Electrical Infrastructure – Light and Power has continued the replacement of old poles, wires and underground infrastructure throughout the Town. The long term mapping of the entire electric system is completed and continually being updated which will tie into the Automatic Meter Reading System for outage reporting. New LED street lighting fixtures were installed on Main and Davis Street, Colonel Jameson Boulevard, various parking lots and a few small subdivisions. This is part of implementation of a more energy efficient lighting plan throughout the Town.
- Rockwater Park – During FY16 a master plan was completed for Rockwater Park. Construction of park improvements is anticipated to begin in FY17.
- Lake Pelham Adventures – After identifying a need for an additional boat access point to Lake Pelham due to the existing boat access point being temporarily removed during construction of the state mandated dam improvements, a location was identified adjacent to The Ole Country Store & Bakery. Realizing a significant effort would be required to construct the required boat access point, the project was expanded to include the Lake Pelham Adventures boat rental facility which is a Public Private partnership between the Town, The Ole Country Store & Bakery as well as other partners.

## **MAJOR INITIATIVES IN FY16 (CONTINUED)**

- *Enterprise Resource Planning* – Due to the Town’s failing financial and business management software system, integration of a new enterprise resource planning software system as begun in FY16. This software system will be integrated in phases with the entire system anticipated to be completed in FY18.
- *Economic Development Center* – In 2014 the Museum of Culpeper History was moved from its location at 803 South Main Street to the Depot leaving the property at 803 South Main Street vacant and in need of significant renovation. To create a funding stream to fund the significant renovation project, the Town and County signed a Deed of Lease Agreement in FY16 to host the County Economic Development staff, Small Business Development Center officer and Town Tourism / Economic Development Director in the soon to be renovated Economic Development Center. In addition to housing these three entities, the Town Council’s committee meeting room was relocated to this space which was complete in FY16.

## **TOWN AWARDS AND ACHIEVEMENTS**

- *Commission on Accreditation of Law Enforcement Agencies (CALEA) Award* – The Culpeper Police Department continues to maintain its Commission on Accreditation of Law Enforcement Agencies (CALEA) Award. The agency is due for Re-Accreditation in FY17. The Police Department will hold its on-site assessment on November 2016 and will attend the Mobile, Alabama CALEA Conference in March 2017.
- *Virginia Law Enforcement Challenge Awards* – In FY16, the Culpeper Police Department continued providing excellent service to our citizens and visitors alike. The agency won 2<sup>nd</sup> Place in the Virginia Law Enforcement Challenge Awards that is annually sponsored by the Virginia Chiefs Association and the Department of Motor Vehicles. Members of the agency received this award in September of 2015 at the annual Virginia Association of Chiefs of Police Conference in Williamsburg, Virginia. This award is based upon all agency personnel participation in traffic and pedestrian safety initiatives.
- *Directors Award* – During FY16 the Town was awarded the Partnership for Safe Water Directors Award for the fourth consecutive year. It should be noted that less than one percent of the nation’s utilities receive this honor, which recognizes community water systems that provide drinking water that surpasses federal and state standards.

## **MAJOR INITIATIVES IN THE FUTURE**

FY16 brings a continued focus on improvement of Town operations and planning for a growing community.

- Transportation and related projects continue to be a major focus in the future. The Town is actively working with VDOT on several transportation improvement projects. Construction work is underway for the Route 229 road widening project. The Inner Loop project was completed in December 2014.
- Economic Development, Business Retention and Business Attraction are major initiatives for the Town and will involve a multi-disciplinary approach. The downtown businesses and businesses outside the historic district are all part of a cooperative approach of economic development that includes the Town partnering with the Chamber of Commerce, Culpeper Renaissance Incorporated and the County of Culpeper Economic Development department.
- Infrastructure Maintenance and Improvements are critical for any business and is a prime focus for the Town. This includes the Town’s water and wastewater system and electrical system, its buildings, equipment and vehicles.

## **DEPARTMENT FOCUS**

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

### ***Revenue Collections***

The Town utilizes a number of methods to secure payment of back taxes and overdue utilities, including DMV-Stops (license renewal is blocked until past due amounts are paid), warrants-in-debt, bank account and property liens, as well as participating in Virginia's Set-Off Debt Program (collects money due from taxpayers via the Commonwealth of Virginia tax refunds). The Town also went live with ICloud for in office and online credit card processing. This transition has lowered the Town's credit card convenience fees as these fees are now passed on to the customer.

### ***Internal Controls***

Internal controls are a critical component of the Treasurer's office and all segments of operations within the department, as well as between the Treasurer's office and other Town departments, are under review. Necessary improvements are implemented to maintain a responsive service level to the Town citizens and employees. We continue to update internal controls to prevent fraud and to streamline processes. This includes updating departmental policies and SOP's.

### ***Fraud Preventive Program***

The Town of Culpeper has implemented its Fraud Preventive Program commonly referred to as Positive Pay or Account Reconciliation Program in January 2015. This helps prevent fraud, perform timely reconciliation of account / cash disbursement and address some of the audit issues. This program continues to be effective and efficient as we have maintained zero fraud on our accounts in FY16.

### ***Bond Refinancing and Credit Rating Re-Evaluation***

In FY16 the Town completed a Moody's and Standard & Poor's credit rating re-evaluation prior to refinancing our 2008 and 2010 General Obligation Bonds in the public market. This resulted in the Town maintaining a credit rating of Aa2 from Moody's as well as maintaining the same AA credit rating from Standards & Poor's. The Town saved approximately \$3 million dollars by refinancing this debt on the public market.

### ***Staffing***

In FY16 the Treasurer's Department now reports to the Town Manager, Chris Hively, instead of reporting directly to the Town Council. The Treasurer's department is now a full staff of sixteen (16) full time associates. These positions are listed below:

Director of Finance / Treasurer	Deputy Treasurer
Chief Accountant	Senior Accountant
Collections Supervisor I	Treasury Supervisor I
Obligations Payment Supervisor	Procurement Officer
Management Analyst	ERP Analyst
Billing / Accounting Clerk	Accounting Clerk
Customer Service Representatives – 4 Associates	



## ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The Town's financial information presented in this report is in accordance with U.S. generally accepted accounting principles. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that: (a) the cost of control should not exceed the benefits likely to be derived, and (b) the evaluation of costs and benefits requires estimates and judgments by management.

## OTHER INFORMATION

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

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the independent auditor's report. The town successfully implemented the new accounting and reporting requirement for pensions per GASB Statement No. 68 in FY15 refer to MD&A, Note 7 and the financial statement section.

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Town of Culpeper for the twelfth consecutive year for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2015. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The CAFR has been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure: to clearly communicate its financial story and motivate potential users and user groups to read the CAFR". In order to be awarded a Certificate of Achievement, a government unit must timely publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must easily satisfy both generally accepted governmental accounting principles and applicable legal requirements.

**Acknowledgments.** The preparation of the Comprehensive Annual Financial Report was outsourced and made possible by the dedicated service of all of the departments of the Town of Culpeper. Each member of these departments has our sincere appreciation for the contributions made in the preparation of this report. This report is available to the public via the Town's website located at [www.culpeperva.gov/officials/treasurer/](http://www.culpeperva.gov/officials/treasurer/).

Respectfully submitted,



Jennifer K. Landreth  
Interim Town Treasurer / Director of Finance



Government Finance Officers Association

Certificate of  
Achievement for  
Excellence in  
Financial Reporting

Presented to

Town of Culpeper  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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

**TOWN COUNCIL**

Michael T. Olinger, Mayor  
William M. Yowell, Vice-Mayor

Jamie Clancey  
Keith D. Price  
Frank Reaves, Jr  
Jon D. Russell

Pranas A. Rimeikis  
Robert M. Ryan  
Meaghan Taylor

**APPOINTED OFFICIALS**

**TOWN MANAGER**  
Christopher Hively

**TOWN CLERK**  
Kimberly D. Allen

**INTERIM TREASURER/DIRECTOR OF FINANCE**  
Jennifer Landreth

**TOWN ATTORNEY**  
Martin R. Crim

**DEPARTMENT HEADS**

**DIRECTOR OF LIGHT AND POWER**  
Michael Stover

**DIRECTOR OF PUBLIC WORKS**  
Jim Hoy

**CHIEF OF POLICE**  
Chris Jenkins

**DIRECTOR OF PLANNING AND  
COMMUNITY DEVELOPMENT**  
Charles Rapp

**DIRECTOR OF INFORMATION TECHNOLOGY**  
Tonya Estes

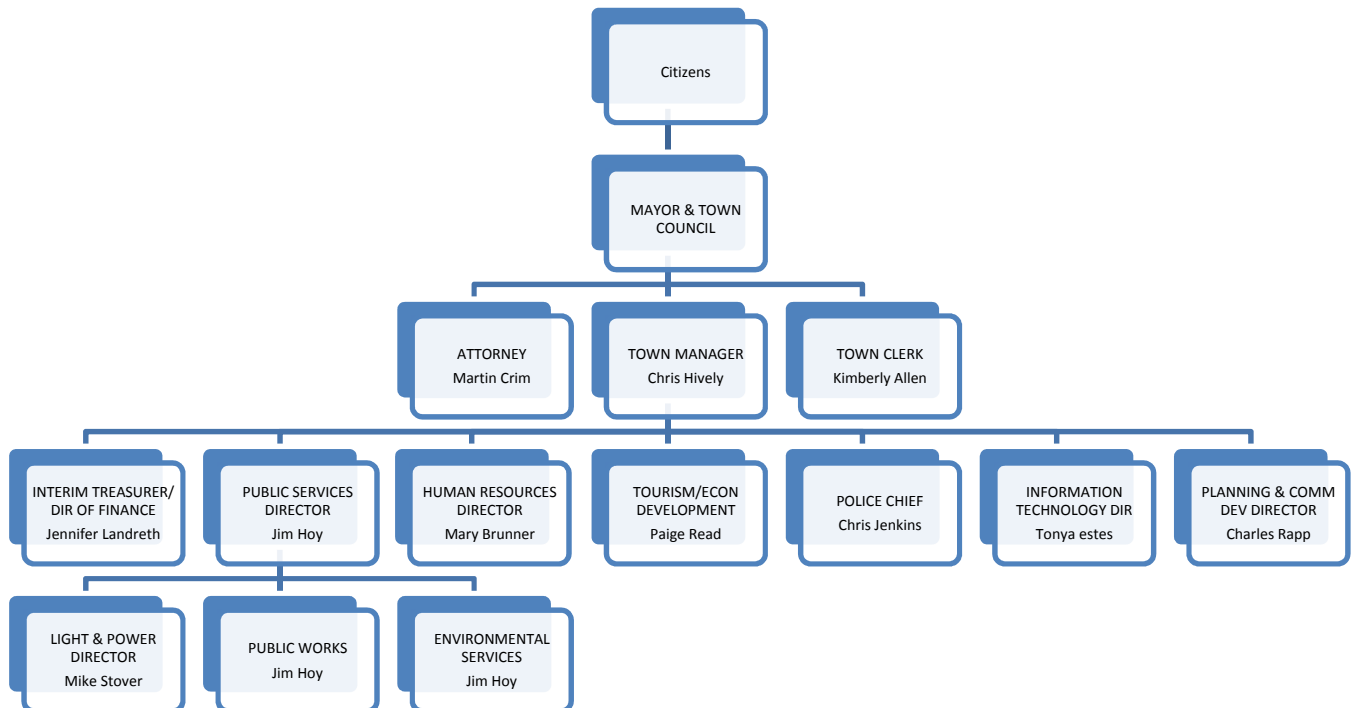
**TOURISM DIRECTOR**  
Paige Read

**DIRECTOR OF ENVIRONMENTAL SERVICES**  
Jim Hoy

**DIRECTOR OF HUMAN  
RESOURCES**  
Mary Brunner

# TOWN OF CULPEPER, VIRGINIA

## ORGANIZATIONAL CHART



## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brown, Edwards & Company, L.L.P." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 1, 2016



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Culpeper, Virginia (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015 and 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages *i* through *v* of this report.

### Financial Highlights

- The Town's assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources at the close of current fiscal year by \$98,357,199 (net position) (Exhibits 1 and 2), up from last fiscal year's net position of \$95,423,643. Of this current amount, \$24,993,253 is unrestricted (Exhibit 1) and may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by a significant amount in capital grants and contributions.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$12,509,991 (Exhibit 3), an increase of \$986,653 (Exhibit 5) in comparison with the prior year's ending fund balance of \$11,523,338 (Exhibit 5). This primarily is due to an increase in refinancing debit from 2008 and 2010 during the fiscal year. The unassigned fund balance went up by \$286,004 from \$5,377,641 to \$5,663,645 (Exhibit 3). This amount is available for spending at the government's discretion.
- The Town successfully implemented GASB Statement No. 68 – Accounting and Financial Reporting for Pensions.

### Overview of the Financial Statements

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

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

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

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

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

## Overview of the Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

## **Implementation of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions**

In 2015 the Town of Culpeper adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The overall effect of this new standard is to reflect the Town's long-term Virginia Retirement System (VRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the Authority was current with its required VRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Town records a net pension liability directly on the statement of net position. Beginning net position was restated in 2015, and this has had a significant impact on the Town's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

### **Government-Wide Financial Analysis**

As discussed in footnote 12, the Town's net position has been restated for the correction of prior year depreciation. In the case of the Town, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$98,357,199 (Exhibit 1) at the close of the most recent fiscal year.

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

A portion of the Town's net position, \$71,624,755 (72.8%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Town's net position, \$1,739,191 (1.7%) is restricted. This restriction is \$289,028 for unspent grant proceeds and asset seizure funds, \$628,030 for proffers, and \$822,133 for the cemetery fund (Exhibit 1). The remaining balance of *unrestricted net positions* (25.5%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town's Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 15,017,632	\$ 15,128,527	\$ 28,335,551	\$ 28,408,967	\$ 43,353,183	\$ 43,537,494
Capital assets	56,872,257	55,837,509	61,236,480	60,907,009	118,108,737	116,744,518
Total assets	71,889,889	70,966,036	89,572,031	89,315,976	161,461,920	160,282,012
Pension Contributions subsequent to measurement date	790,755	813,718	351,701	349,134	1,142,456	1,162,852
Deferred amount on refunding	87,226	402,386	138,811	1,108,210	226,037	1,510,596
Total deferred outflows of resources	877,981	1,216,104	490,512	1,457,344	1,368,493	2,673,448
Long-term liabilities	22,752,490	22,433,729	36,981,719	36,480,293	59,734,209	58,914,022
Current liabilities	3,211,315	2,359,477	2,736,904	2,573,911	5,948,219	4,933,388
Total liabilities	25,963,805	24,793,206	39,718,623	39,054,204	65,682,428	63,847,410
Net difference between projected and actual investment earnings on pension plan investments	1,202,043	525,416	522,299	225,435	1,724,342	750,851
Total deferred inflows of resources	1,202,043	525,416	522,299	225,435	1,724,342	750,851
Net position						
Net investment in capital assets	43,149,400	43,759,691	26,550,954	27,865,064	69,700,354	71,624,755
Restricted	1,581,752	1,739,191	-	-	1,581,752	1,739,191
Unrestricted	870,870	1,364,636	23,270,667	23,628,617	24,141,537	24,993,253
Total net position	\$ 45,602,022	\$ 46,863,518	\$ 49,821,621	\$ 51,493,681	\$ 95,423,643	\$ 98,357,199

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

The Town's net position increased by \$2,933,556 (\$98,357,199 less \$95,423,643), or 3%, during the current fiscal year. The key elements of this change are related to the net effect of the new accounting and reporting requirements of pensions and its net higher capital grants and contributions received during the fiscal year (Exhibit 1).

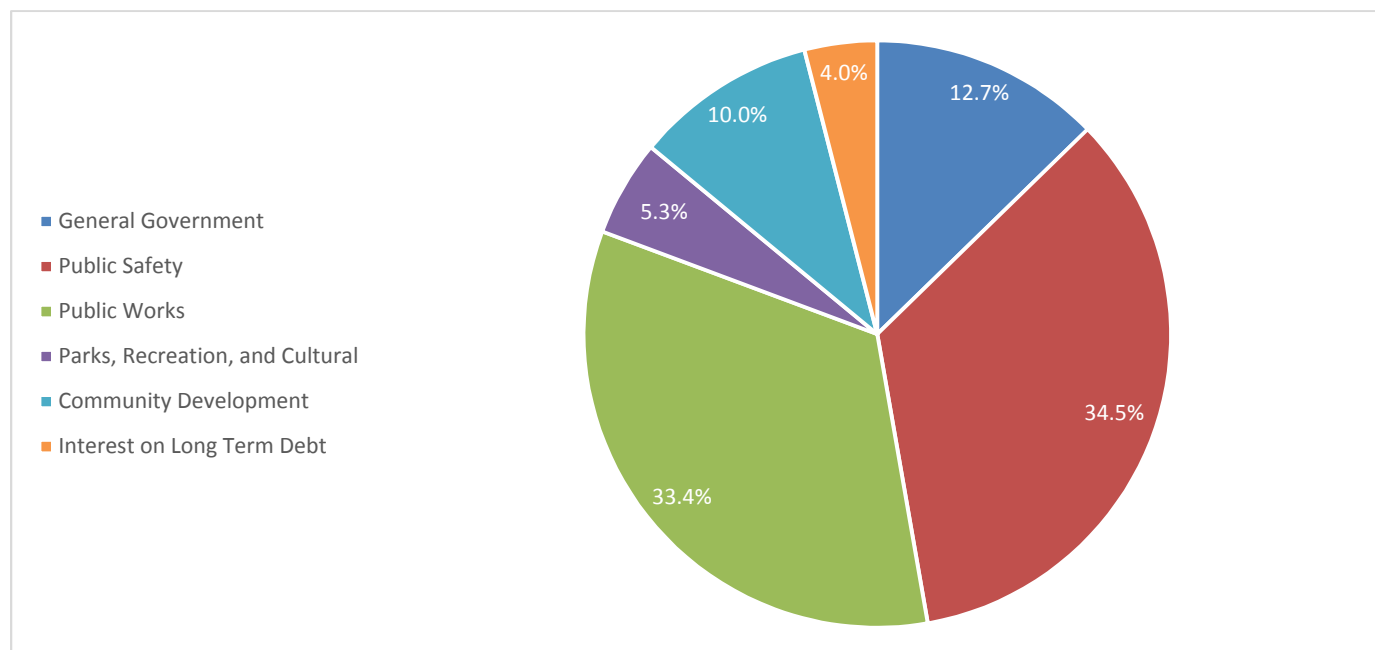
**Governmental Activities** – Governmental activities increased the Town's net position by \$1,273,897 (Exhibits 2 and 6). This increase was mainly due to the \$1,139,282 increase in the refinancing of the 2008 and 2010 general obligation bonds (Exhibit 6).

## Government-Wide Financial Analysis (Continued)

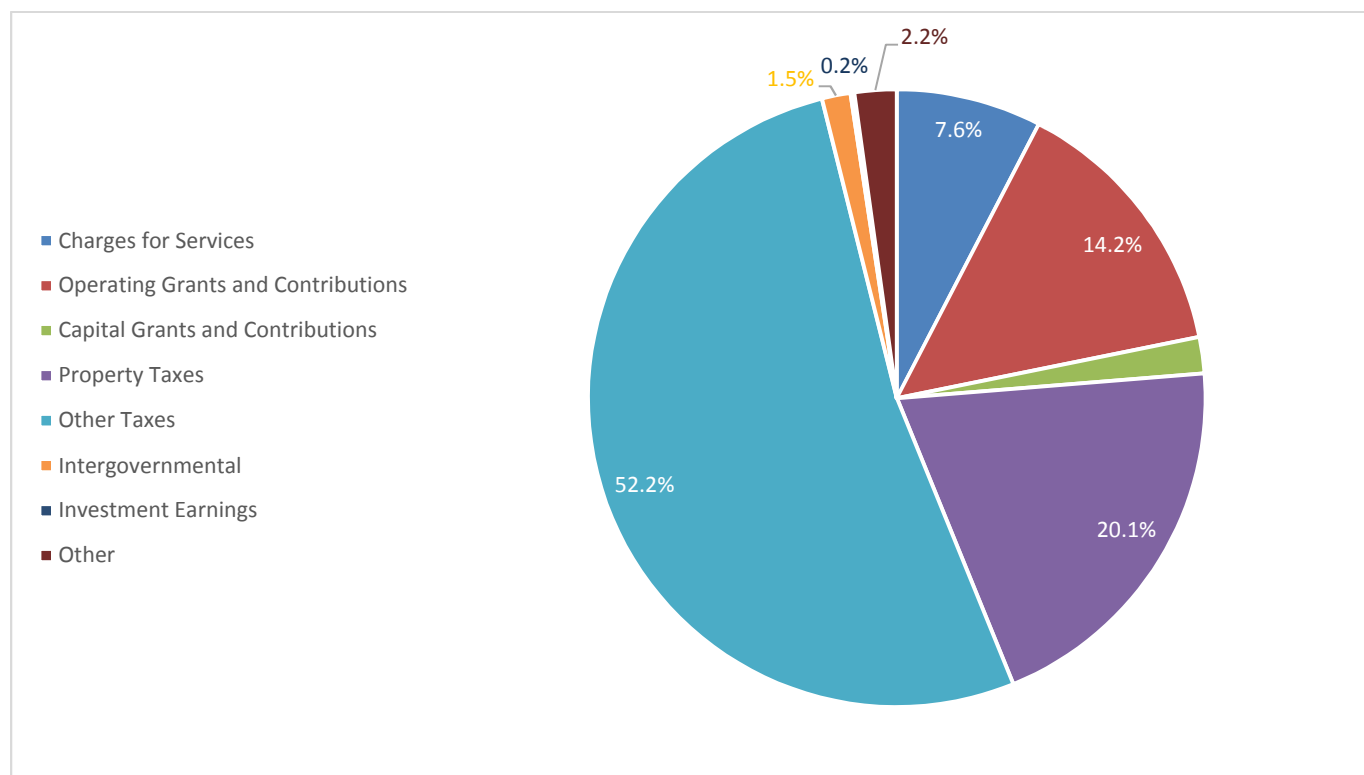
**Business-type Activities** – Business-type activities increased the Town’s net position by \$1,759,425 mainly from an increase in program revenues in charges for services.

	The Town’s Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program revenues						
Charges for services	\$ 1,059,740	\$ 1,166,983	\$ 21,643,370	\$ 22,404,927	\$ 22,703,110	\$ 23,571,910
Operating grants and contributions	2,180,092	2,164,513	-	-	2,180,092	2,164,513
Capital grants and contributions	7,738,062	294,304	-	-	7,738,062	294,304
General revenues						
Property taxes	3,095,547	3,062,450	-	-	3,095,547	3,062,450
Other taxes	7,167,068	7,376,131	-	-	7,167,068	7,376,131
Intergovernmental revenue unrestricted	231,499	231,707	-	-	231,499	231,707
Investment earnings	18,793	36,412	30,050	60,471	48,843	96,883
Other	165,826	331,402	14,597	11,775	180,423	343,177
Total revenues	21,656,627	15,257,440	21,688,017	22,477,173	43,344,644	37,141,075
Expenses						
General government	1,580,634	1,782,797	-	-	1,580,634	1,782,797
Public safety	4,466,205	4,826,442	-	-	4,466,205	4,826,442
Public works	4,622,046	4,677,492	-	-	4,622,046	4,677,492
Parks, recreation, and cultural	658,510	734,657	-	-	658,510	734,657
Community development	1,403,802	1,404,450	-	-	1,403,802	1,404,450
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	502,905	557,705	-	-	502,905	557,705
Water	-	-	3,483,189	3,880,069	3,483,189	3,880,069
Wastewater	-	-	5,146,396	5,533,867	5,147,296	5,533,867
Electric	-	-	11,640,544	10,710,274	11,640,544	10,710,274
Total expenses	13,234,102	13,983,543	20,270,129	20,124,210	33,504,231	34,107,753
Excess (deficiency) before transfers	8,422,525	680,359	1,417,888	2,352,963	9,840,413	3,033,322
Transfers	625,612	593,538	(625,612)	(593,538)	-	-
Change in net position	9,048,137	1,273,897	792,276	1,759,425	9,840,413	3,033,322
Net position – July 1	36,553,885	45,589,621	49,029,345	49,734,256	85,583,230	95,323,877
Net position – June 30	\$45,602,022	\$46,863,518	\$49,821,621	\$51,493,681	\$95,423,643	\$98,357,199

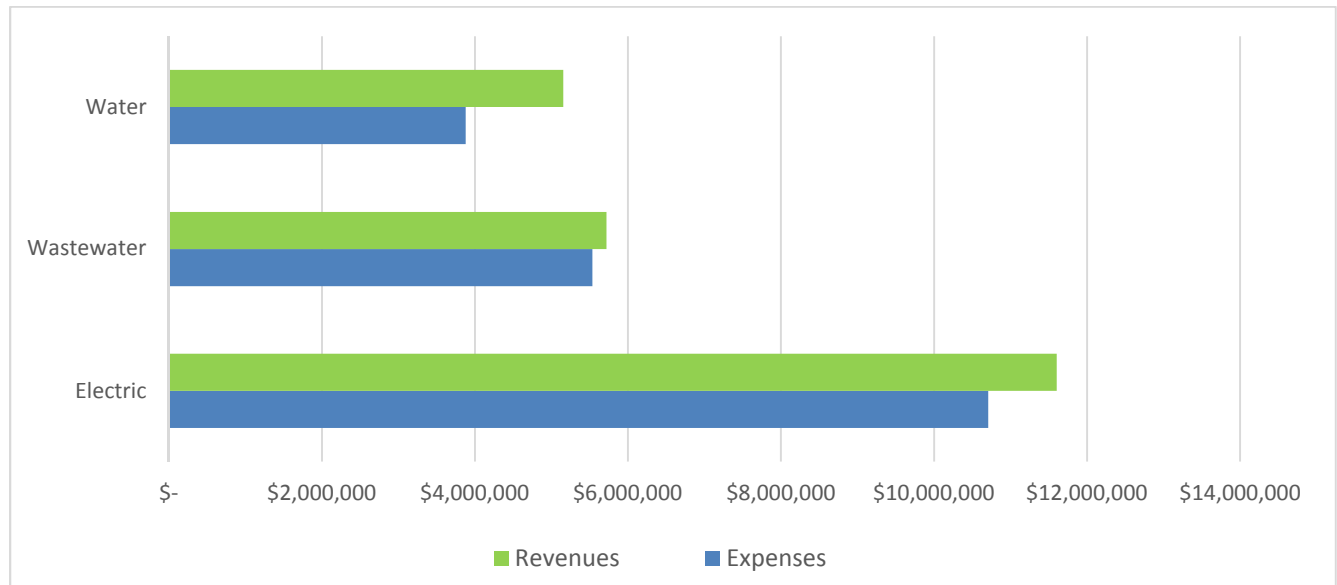
## Expenses – Governmental Activities



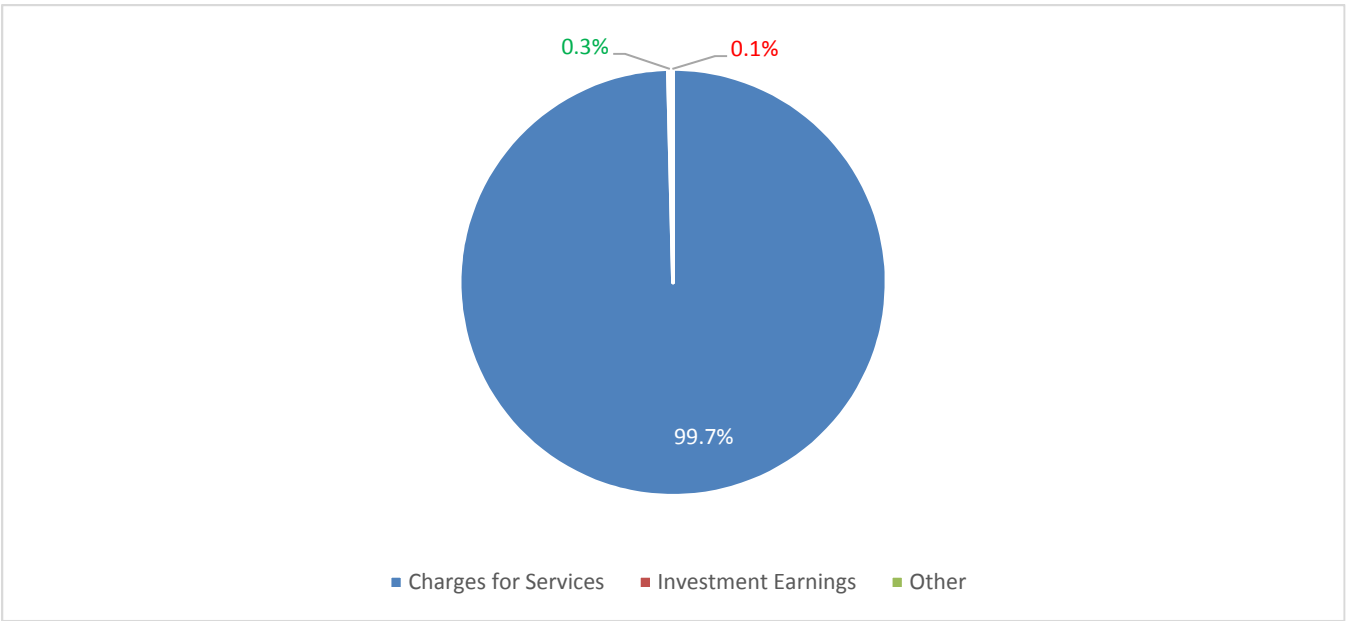
## Revenues by Source – Governmental Activities



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



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



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds (Exhibit 5) reported an ending fund balance of \$12,509,991, an increase of \$986,653 in comparison with the prior year's fund balance of \$11,523,338. Approximately 45% of this total amount – that is, \$5,663,645 constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been designated.

As a measure of the governmental fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34% of total governmental fund expenditures, while total fund balance represents 76% of that same amount.

The Town's general fund balance increased \$922,774 in FY2016, primarily due to the sale of the old Town Police department building and the refinancing of the 2008 and 2010 bonds.

**Proprietary Funds** – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water fund (Exhibit 7) at the end of the year equaled \$17,329,428; the wastewater fund equaled \$4,171,749; and the unrestricted net assets for the electric fund amounted to \$2,127,440. The total increase in net position was \$1,759,425 (Exhibit 8). Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

## General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$12,278,287. Highlights of amounts carried forward to FY16 from FY15 are as follows:

- \$2,484,756 for Route 229 Widening project;
- \$7,843,592 for subsurface exploration well improvements / Chandler Street well treatment; and the Upgrades / Modifications to Dam #11 and Dam #50;
- \$1,949,939 for various incomplete projects.



## General Fund Budgetary Highlights (Continued)

Differences between the amended budget and actual results amounted to \$5,603,660 (Exhibit 11). Highlights are:

- General Fund Projects anticipated for had huge spending in carryover money in FY16 creating a difference of \$3,331,498 between final budget numbers and actual.
- The Public Works departments minimized expenses for the year creating a variance of \$585,069 between final budget and actual.
- Actual additional revenues in the amount of \$299,932 was received for the sale of the Old Police Department building, as well as the refinance of the 2008 and 2010 GO bonds.

## 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, 2016, amounts to \$116,744,518 (net of accumulated depreciation) (Note 6). This includes land; construction in progress; buildings and system improvements; and machinery, equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year was 1.07% (a 1.8% decrease for governmental activities and a 0.4% decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

	<b>The Town’s Capital Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015*</b>	<b>2016</b>	<b>2015*</b>	<b>2016</b>	<b>2015*</b>	<b>2016</b>
Land	\$ 3,762,810	\$ 4,132,558	\$ 2,629,500	\$ 2,629,500	\$ 6,392,310	\$ 6,762,058
Buildings and improvements	23,029,354	23,567,993	101,324,760	101,519,175	124,354,114	125,087,168
Machinery and equipment	7,584,651	8,173,392	9,130,774	9,517,343	16,715,425	17,690,735
Infrastructure	60,620,350	60,620,350	-	-	60,620,350	60,620,350
Construction in progress	1,432,104	1,466,733	3,166,819	5,395,056	4,598,923	6,861,789
Less accumulated depreciation	(39,569,413)	(42,123,517)	(55,102,736)	(58,154,065)	(94,672,149)	(100,277,582)
Total	<u>\$ 56,859,856</u>	<u>\$ 55,837,509</u>	<u>\$ 61,149,117</u>	<u>\$ 60,907,009</u>	<u>\$ 118,108,973</u>	<u>\$ 116,744,518</u>

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

\*The above reflects updated FY15 capital assets numbers as they were restated as described in Note 12.

## Economic Factors

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

**Long-Term Debt** – At the end of the current fiscal year, the Town had total debt outstanding of \$51,129,085. This amount is comprised of debt backed by the full faith and credit of the government.

	<b>The Town's Outstanding Debt</b>					
	<b>General Obligation Bonds</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
General obligation bonds	\$ 17,132,434	\$ 15,628,936	\$ 34,142,743	\$ 31,516,063	\$ 51,275,177	\$ 47,144,999
Other obligations payable	-	-	150,658	81,180	150,658	81,180
Bond premium	654,756	1,334,132	535,052	2,568,774	1,189,808	3,902,906
Total	<u>\$ 17,787,190</u>	<u>\$ 16,963,068</u>	<u>\$ 34,828,453</u>	<u>\$ 34,166,017</u>	<u>\$ 52,615,643</u>	<u>\$ 51,129,085</u>

The Town's total net debt decreased by \$1,486,558 or 2.8% during the current fiscal year due to the refinancing of general obligations bonds in June 2016 in the public market which reduces the total debt service payments over the next 22 years by approximately \$3 million.

The Town has maintained a rating of AA from Standard & Poor's and Aa2 from Moody's for its outstanding general obligation debt even prior to the refinance of the 2008 and 2010 general obligations bonds in FY16 in the public market.

Additional information on the Town's long-term debt can be found in Note 8 of this report.

## Requests for Information

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

## **BASIC FINANCIAL STATEMENTS**

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## TOWN OF CULPEPER, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2016

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 6,065,021	\$ 24,914,704	\$ 30,979,725	\$ 79,398
Receivables, net (Note 3)	807,320	2,266,653	3,073,973	-
Notes receivable (Note 3)	50,000	-	50,000	983,859
Due from other governmental units (Note 5)	827,556	188,116	1,015,672	-
Inventories	-	1,023,632	1,023,632	-
Cash and cash equivalents, restricted (Note 2)	7,378,630	15,862	7,394,492	50,830
Capital assets: (Note 6)				-
Nondepreciable	5,599,291	8,024,556	13,623,847	-
Depreciable, net	50,238,218	52,882,453	103,120,671	-
Total assets	70,966,036	89,315,976	160,282,012	1,114,087
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions (Note 7)	813,718	349,134	1,162,852	-
Deferred amount on refunding	402,386	1,108,210	1,510,596	-
Total deferred outflows of resources	1,216,104	1,457,344	2,673,448	-
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	487,324	966,516	1,453,840	-
Accrued payroll and related liabilities	371,171	80,267	451,438	-
Accrued interest payable	220,425	492,339	712,764	25,594
Bonds and security deposits	1,280,557	1,034,789	2,315,346	-
Noncurrent liabilities:				
Net pension liability (Note 7)	4,553,236	1,953,613	6,506,849	-
Due within one year (Note 8)	1,891,316	2,398,070	4,289,386	13,954
Due in more than one year (Note 8)	15,989,177	32,128,610	48,117,787	983,859
Total liabilities	24,793,206	39,054,204	63,847,410	1,023,407
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Net difference between projected and actual investment earnings on pension plan investments (Note 7)	525,416	225,435	750,851	-
Unearned revenue (Note 9)	-	-	-	8,082
Total deferred inflows of resources	525,416	225,435	750,851	8,082
<b>NET POSITION</b>				
Net investment in capital assets	43,759,691	27,865,064	71,624,755	-
Restricted:				
Unspent grant proceeds and asset seizure funds	289,028	-	289,028	-
Proffers	628,030	-	628,030	-
Cemetery fund-nonexpendable	822,133	-	822,133	-
Unrestricted	1,364,636	23,628,617	24,993,253	82,598
Total net position	\$ 46,863,518	\$ 51,493,681	\$ 98,357,199	\$ 82,598

## TOWN OF CULPEPER, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals	
					Governmental Activities	Business- Type Activities		
Governmental activities:								
General government administration	\$ 1,782,797	\$ 81,443	\$ -	\$ -	\$ (1,701,354)	\$ -	\$ (1,701,354)	\$ -
Public safety	4,826,442	195,365	333,131	-	(4,297,946)	-	(4,297,946)	-
Public works	4,677,492	432,509	1,824,402	244,304	(2,176,277)	-	(2,176,277)	-
Parks, recreation, and cultural	734,657	420,362	5,000	-	(309,295)	-	(309,295)	-
Community development	1,404,450	37,304	1,980	50,000	(1,315,166)	-	(1,315,166)	-
Interest on long-term debt	557,705	-	-	-	(557,705)	-	(557,705)	-
Total governmental activities	13,983,543	1,166,983	2,164,513	294,304	(10,357,743)	-	(10,357,743)	-
Business-type activities:								
Water	3,880,069	5,125,832	-	-	-	1,245,763	1,245,763	
Wastewater	5,533,867	5,686,153	-	-	-	152,286	152,286	
Electric	10,710,274	11,592,942	-	-	-	882,668	882,668	
Total business-type activities	20,124,210	22,404,927	-	-	-	2,280,717	2,280,717	
Total primary government	\$ 34,107,753	\$ 23,571,910	\$ 2,164,513	\$ 294,304	(10,357,743)	2,280,717	(8,077,026)	
Component Units:								
Industrial Development Authority	\$ 195,201	\$ -	\$ 161,673	\$ -	-	-	-	(33,528)
Total component unit	\$ 195,201	\$ -	\$ 161,673	\$ -	-	-	-	(33,528)
General revenues:								
Property taxes					3,062,450	-	3,062,450	-
Meals tax					3,941,061	-	3,941,061	-
Sales tax					1,363,040	-	1,363,040	-
Business license tax					1,043,272	-	1,043,272	-
Bank stock tax					338,243	-	338,243	-
Cigarette tax					167,265	-	167,265	-
Hotel and motel room tax					342,965	-	342,965	-
Other local taxes					180,285	-	180,285	-
Intergovernmental revenue, unrestricted					231,707	-	231,707	-
Unrestricted investment earnings					36,412	60,471	96,883	-
Restricted investment earnings					-	-	-	33,786
Other					331,402	11,775	343,177	-
Transfers (Note 4)					593,538	(593,538)	-	-
Total general revenues and transfers					11,631,640	(521,292)	11,110,348	33,786
Change in net position					1,273,897	1,759,425	3,033,322	258
NET POSITION AT JULY 1, AS RESTATED (Note 12)					45,589,621	49,734,256	95,323,877	82,340
NET POSITION AT JUNE 30					\$ 46,863,518	\$ 51,493,681	\$ 98,357,199	\$ 82,598

## TOWN OF CULPEPER, VIRGINIA

BALANCE SHEET –  
GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,065,021	\$ -	\$ 6,065,021
Receivables, net (Note 3)	807,320	-	807,320
Due from other governmental units (Note 5)	827,556	-	827,556
Cash and cash equivalents, restricted	6,556,497	822,133	7,378,630
Total assets	<u>\$ 14,256,394</u>	<u>\$ 822,133</u>	<u>\$ 15,078,527</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 487,324	\$ -	\$ 487,324
Accrued payroll and related liabilities	371,171	-	371,171
Bonds and security deposits	1,280,557	-	1,280,557
Total liabilities	<u>2,139,052</u>	<u>-</u>	<u>2,139,052</u>
<b>Deferred inflows of resources:</b>			
Unavailable revenue (Note 9)	429,484	-	429,484
Total deferred inflows of resources	<u>429,484</u>	<u>-</u>	<u>429,484</u>
<b>Fund balances: (Note 11)</b>			
Restricted	5,399,922	822,133	6,222,055
Committed	176,088	-	176,088
Assigned	448,203	-	448,203
Unassigned	5,663,645	-	5,663,645
Total fund balances	<u>11,687,858</u>	<u>822,133</u>	<u>12,509,991</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,256,394</u>	<u>\$ 822,133</u>	<u>\$ 15,078,527</u>

## TOWN OF CULPEPER, VIRGINIA

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

June 30, 2016

<b>Total Fund Balances – Governmental Funds</b>	\$ 12,509,991
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Amounts reported for governmental activities in the statement of net position are different because:

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

Nondepreciable	\$ 5,599,291	
Depreciable, net	50,238,218	
		55,837,509

Deferred loss on refundings, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt in the statement of net position:

Bond premiums total \$1,596,034 and accumulated amortization of \$261,902	(1,334,132)	
Deferred loss on refunding total \$467,804 and accumulated amortization of \$65,418	402,386	
		(931,746)

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

429,484

A note receivable is not available to pay for current-period expenditures and therefore is deferred in the funds.

50,000

Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources for 2016 employer contributions and differences between expected and actual experience	813,718	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(525,416)	
Net pension liability	(4,553,236)	
		(4,264,934)

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

General obligation bonds	(15,628,936)	
Accrued interest payable	(220,425)	
Other post-employment benefits	(235,849)	
Compensated absences	(681,576)	
		(16,766,786)

<b>Total Net Position – Governmental Activities</b>	<b>\$ 46,863,518</b>
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## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS  
Year Ended June 30, 2016**

	<b>General Fund</b>	<b>Permanent Fund Cemetery Perpetual Care</b>	<b>Total</b>
<b>REVENUES</b>			
General property taxes	\$ 3,102,450	\$ -	\$ 3,102,450
Other local taxes	7,354,141	-	7,354,141
Permits, privilege fees, and regulatory licenses	364,246	-	364,246
Fines and forfeitures	118,324	-	118,324
Revenues from use of money and property	212,379	1,162	213,541
Charges for services	279,147	58,300	337,447
Other	196,889	-	196,889
Recovered costs	2,208,363	-	2,208,363
Intergovernmental	2,690,525	4,417	2,694,942
Total revenues	<u>16,526,464</u>	<u>63,879</u>	<u>16,590,343</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	3,590,533	-	3,590,533
Public safety	4,619,766	-	4,619,766
Public works	3,514,464	-	3,514,464
Parks, recreation, and cultural	730,184	-	730,184
Community development	1,414,780	-	1,414,780
Capital projects	884,820	-	884,820
Debt service:			
Principal retirement	1,227,548	-	1,227,548
Interest and fiscal charges	511,519	-	511,519
Bond issuance costs	73,022	-	73,022
Total expenditures	<u>16,566,636</u>	<u>-</u>	<u>16,566,636</u>
Excess (deficiency) of revenues over expenditures	<u>(40,172)</u>	<u>63,879</u>	<u>23,707</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of general obligation bonds	6,105,879	-	6,105,879
Payments to escrow agent	(6,036,403)	-	(6,036,403)
Proceeds from sale of assets	299,932	-	299,932
Transfers in (Note 4)	593,538	-	593,538
Total other financing sources (uses)	<u>962,946</u>	<u>-</u>	<u>962,946</u>
Net change in fund balances	922,774	63,879	986,653
<b>FUND BALANCES AT JULY 1</b>	10,765,084	758,254	11,523,338
<b>FUND BALANCES AT JUNE 30</b>	<u><u>\$ 11,687,858</u></u>	<u><u>\$ 822,133</u></u>	<u><u>\$ 12,509,991</u></u>



## TOWN OF CULPEPER, VIRGINIA

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

Year Ended June 30, 2016

**Net Change in Fund Balances – Governmental Funds** \$ 986,653

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$2,554,104 exceeded capital outlays of \$1,531,757 in the current period.

(1,022,347)

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

(18,009)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Debt principal repayment	\$	1,176,012
Proceeds from bonds		(6,105,879)
Payments to bond escrow agent		6,036,403
Changes in bond premiums		43,650
Changes in loss on refunding		(10,904)
		1,139,282

1,139,282

Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions		813,718
Pension expense		(481,677)
		332,041

332,041

Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits and accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in compensated absences		(78,821)
Change in other post-employment benefits		(58,991)
Change in accrued interest payable		(5,911)
		(143,723)

(143,723)

**Change in Net Position – Governmental Activities**

\$ 1,273,897

## TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET POSITION –  
PROPRIETARY FUNDS

June 30, 2016

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 17,463,911	\$ 4,629,249	\$ 2,821,544	\$ 24,914,704
Receivables, net (Note 3)	399,780	482,944	1,383,929	2,266,653
Due from other governmental units (Note 5)	133,127	33,874	21,115	188,116
Interfund advances receivable (Note 4)	54,891	-	-	54,891
Inventories	251,339	105,513	666,780	1,023,632
Total current assets	18,303,048	5,251,580	4,893,368	28,447,996
Noncurrent assets:				
Cash and cash equivalents, restricted	14,050	-	1,812	15,862
Interfund advances receivable (Note 4)	225,109	-	-	225,109
Capital assets: (Note 6)				
Nondepreciable	6,126,437	894,518	1,003,601	8,024,556
Depreciable, net	9,522,385	35,425,758	7,934,310	52,882,453
Total noncurrent assets	15,887,981	36,320,276	8,939,723	61,147,980
Total assets	34,191,029	41,571,856	13,833,091	89,595,976
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	109,607	110,055	129,472	349,134
Deferred amount on refunding	43,797	928,122	136,291	1,108,210
Total deferred outflows of resources	153,404	1,038,177	265,763	1,457,344
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	161,987	51,652	752,877	966,516
Accrued payroll and related liabilities	25,868	27,714	26,685	80,267
Accrued interest payable	104,473	317,055	70,811	492,339
Customer security deposits	208,264	-	826,525	1,034,789
Current portion of other long-term debt (Note 8)	687,842	1,073,090	427,625	2,188,557
Interfund advances payable (Note 4)	-	-	54,891	54,891
Compensated absences (Note 8)	72,610	55,548	81,355	209,513
Total current liabilities	1,261,044	1,525,059	2,240,769	5,026,872
Noncurrent liabilities:				
Net pension liability (Note 7)	613,318	615,824	724,471	1,953,613
Other long-term debt (Note 8)	9,354,190	17,660,392	4,962,878	31,977,460
Interfund advances payable (Note 4)	-	-	225,109	225,109
Other post-employment benefits (Note 10)	32,891	37,144	28,737	98,772
Compensated absences (Note 8)	18,152	13,887	20,339	52,378
Total noncurrent liabilities	10,018,551	18,327,247	5,961,534	34,307,332
Total liabilities	11,279,595	19,852,306	8,202,303	39,334,204
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Net difference between projected and actual investment earnings on pension plan investments (Note 7)	70,773	71,062	83,600	225,435
<b>NET POSITION</b>				
Net investment in capital assets	5,664,637	18,514,916	3,685,511	27,865,064
Unrestricted	17,329,428	4,171,749	2,127,440	23,628,617
Total net position	\$ 22,994,065	\$ 22,686,665	\$ 5,812,951	\$ 51,493,681

## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION –  
PROPRIETARY FUNDS  
Year Ended June 30, 2016**

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water</b>	<b>Wastewater</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 3,322,570	\$ 4,264,755	\$ 11,533,199	\$ 19,120,524
Penalties	34,848	34,848	35,906	105,602
Other	870,946	24,050	23,837	918,833
Total operating revenues	4,228,364	4,323,653	11,592,942	20,144,959
<b>OPERATING EXPENSES</b>				
Water treatment	2,069,454	-	-	2,069,454
Wastewater collection	-	299,113	-	299,113
Wastewater treatment	-	2,989,507	-	2,989,507
Transmission and distribution	803,611	-	1,518,113	2,321,724
Power purchased (Note 13)	-	-	7,034,226	7,034,226
Administration	-	-	1,026,057	1,026,057
Other	-	850	-	850
Depreciation	778,794	1,317,813	954,722	3,051,329
Total operating expenses	3,651,859	4,607,283	10,533,118	18,792,260
Operating income (loss)	576,505	(283,630)	1,059,824	1,352,699
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	30,268	25,263	4,940	60,471
Interest expense	(226,747)	(726,615)	(148,035)	(1,101,397)
Bond issuance costs	(1,463)	(199,969)	(29,121)	(230,553)
Gain on disposal of capital assets	-	8,301	-	8,301
Tap fees	897,468	1,362,500	-	2,259,968
Insurance recovery	-	-	3,474	3,474
Net nonoperating revenue (expenses)	699,526	469,480	(168,742)	1,000,264
Income before transfers	1,276,031	185,850	891,082	2,352,963
<b>TRANSFERS OUT (Note 4)</b>	(99,675)	(127,260)	(366,603)	(593,538)
Change in net position	1,176,356	58,590	524,479	1,759,425
<b>NET POSITION AT JULY 1, AS RESTATED (Note 12)</b>	21,817,709	22,628,075	5,288,472	49,734,256
<b>NET POSITION AT JUNE 30</b>	<u>\$ 22,994,065</u>	<u>\$ 22,686,665</u>	<u>\$ 5,812,951</u>	<u>\$ 51,493,681</u>

**TOWN OF CULPEPER, VIRGINIA**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**Year Ended June 30, 2016**

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water</b>	<b>Wastewater</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 4,100,782	\$ 4,294,313	\$ 11,690,535	\$ 20,085,630
Payments to suppliers	(1,454,427)	(1,897,116)	(8,256,080)	(11,607,623)
Payments to employees	(1,313,322)	(1,393,615)	(1,523,847)	(4,230,784)
Net cash provided by operating activities	1,333,033	1,003,582	1,910,608	4,247,223
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Insurance recovery	-	-	3,474	3,474
Interfund transfers	(99,675)	(127,260)	(366,603)	(593,538)
Net cash used in noncapital financing activities	(99,675)	(127,260)	(363,129)	(590,064)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from refunding bonds	105,421	14,513,351	2,204,823	16,823,595
Purchases of capital assets	(1,649,223)	(400,968)	(508,248)	(2,558,439)
Proceeds from disposal of capital asset	-	8,301	-	8,301
Principal paid on capital debt	(757,262)	(15,107,046)	(2,586,850)	(18,451,158)
Interfund advance for capital items	-	-	280,000	280,000
Debt issuance costs	(1,463)	(199,969)	(29,121)	(230,553)
Tap fees collected	897,468	1,362,500	-	2,259,968
Interest paid on capital debt	(302,246)	(738,410)	(170,527)	(1,211,183)
Net cash provided by (used in) capital and related financing activities	(1,707,305)	(562,241)	(809,923)	(3,079,469)
<b>INVESTING ACTIVITIES</b>				
Interfund Loan	(280,000)	-	-	(280,000)
Interest received	30,268	25,263	4,940	60,471
Net cash provided by (used in) investing activities	(249,732)	25,263	4,940	(219,529)
Net increase (decrease) in cash and cash equivalents	(723,679)	339,344	742,496	358,161
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	18,201,640	4,289,905	2,080,860	24,572,405
Ending at June 30	\$ 17,477,961	\$ 4,629,249	\$ 2,823,356	\$ 24,930,566
<b>RECONCILIATION TO EXHIBIT 7</b>				
Cash and cash equivalents	\$ 17,463,911	\$ 4,629,249	\$ 2,821,544	\$ 24,914,704
Cash and cash equivalents, restricted	14,050	-	1,812	15,862
	\$ 17,477,961	\$ 4,629,249	\$ 2,823,356	\$ 24,930,566
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 576,505	\$ (283,630)	\$ 1,059,824	\$ 1,352,699
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	778,794	1,317,813	954,722	3,051,329
Pension expense net of employer contributions	(92,530)	3,824	(70,698)	(159,404)
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	7,154	(5,319)	120,836	122,671
Due from other governmental units	(133,127)	(24,021)	27,775	(129,373)
Inventories	62,182	2,131	27,134	91,447
Prepays	200,000	-	-	200,000
(Decrease) increase in:				
Accounts payable and accrued liabilities	(47,151)	(1,879)	(153,426)	(202,456)
Accrued payroll and related liabilities	(19,756)	(23,619)	(37,580)	(80,955)
Customer security deposits	(1,609)	-	(23,243)	(24,852)
Other post-employment benefits	7,135	8,563	7,612	23,310
Compensated absences	(4,564)	9,719	(2,348)	2,807
Net cash provided by operating activities	\$ 1,333,033	\$ 1,003,582	\$ 1,910,608	\$ 4,247,223
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital asset purchases included in accounts payable at year end	\$ 90,831	\$ -	\$ 78,913	\$ 169,744
Capitalized interest	\$ 77,452	\$ 27,065	\$ 20,302	\$ 124,819

## TOWN OF CULPEPER, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION  
 AGENCY FUND  
 June 30, 2016

**Parking  
 Authority**

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**ASSETS**

Receivables, net	\$ 8,463
Future amounts to be collected to liquidate liabilities	<u>42,633</u>
Total assets	<u><u>\$ 51,096</u></u>

**LIABILITIES**

Due to fiscal agent	<u>\$ 51,096</u>
Total liabilities	<u><u>\$ 51,096</u></u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**A. The Financial Reporting Entity**

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

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

Discretely Presented Component Unit:

A discretely presented component unit is an entity that is legally separate from the Town, but for which the Town is financially accountable, or whose relationship with the Town is such that exclusion would cause the Town’s financial statements to be misleading or incomplete. It is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. The Town is financially accountable for its component unit because it approves the budget and any debt issuances. The component unit is governmental in nature. The statements are shown in their entirety in the government-wide statements. It does not issue a separate financial report.

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

Fiduciary Fund:

The fiduciary fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support Town programs.

*Parking Authority of the Town of Culpeper:* The Parking Authority manages parking facilities within the Town.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 45 days of the end of the current period. The Town considers expenditure driven grant reimbursements as revenue in the period in which the expenditure has been incurred and all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

The Town reports the following major governmental fund:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

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

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

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

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

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

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

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

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



**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**D. Budgets and Budgetary Accounting**

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

- 1) Prior to June 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the department level.
- 4) Formal budgetary integration is employed as a management control device for most funds.
- 5) The budget for the general fund is adopted on the modified accrual basis of accounting.
- 6) All appropriations which are not encumbered lapse at year end.

**E. Cash and Cash Equivalents**

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

**F. Allowance for Uncollectible Accounts**

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

**G. Inventories**

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

**H. Capital Assets**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**H. Capital Assets (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$124,819 in interest expense was included as part of the cost of capital assets under construction.

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

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

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

**I. Deferred Outflows/Inflows of Resources**

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has three items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second item represents differences between expected and actual experience in the pension plan. This difference will be recognized in pension expense over a closed five year period. The third item is the deferred gain on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is unearned revenue, which results from collections of IDA note payments received in advance. The third is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

**J. Compensated Absences**

Employees accumulate vacation time and sick leave depending upon their length of service. Accumulated vacation is paid upon termination. Sick leave is paid to employees who leave the Town in good standing with 5 or more years of service at a rate of \$10 per day up to a maximum \$2,000. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental funds only when the amounts are due and payable.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**K. Pensions:**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**L. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

**M. Fund Balances**

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Council through adoption of a resolution. Only Town Council may modify or rescind the commitment.
- **Assigned** - Amounts the Town intends to use for a specified purpose; intent can be expressed by the Town Council or by the Town Manager or Treasurer, who has been designated this authority by the Town Council.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the general fund.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**N. Restricted Amounts**

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

**O. Minimum Fund Balance Policy**

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

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

**P. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. General fund encumbrances are \$2,952,792 as of June 30.

**Q. Estimates**

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

**Note 2. Deposits and Investments**

**Deposits**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 2. Deposits and Investments (Continued)**

**Investments**

**Investment Policy:**

In accordance with the *Code of Virginia* and other applicable laws and regulations, the Town's investment policy permits investments in treasury securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program (SNAP) or other authorized arbitrage investment management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than three months from the date of purchase.

As of June 30, the Town had the following deposits and investments:

<b>Type</b>	<b>Fair Value</b>	<b>Credit Rating</b>	<b>Percent of Portfolio</b>
Primary Government:			
Demand deposits	\$ 21,519,875	NA	56.08 %
SNAP	4,498,727	AAAm	11.72
LGIP	12,355,615	AAAm	32.20
Primary government investments	<u>\$ 38,374,217</u>		<u>100.00 %</u>
Component Unit – IDA:			
Demand deposits	<u>\$ 79,398</u>	NA	<u>100.00 %</u>
Primary Government reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 30,979,725		
Cash and cash equivalents, restricted	<u>7,394,492</u>		
Total deposits and investments	<u>\$ 38,374,217</u>		

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 2. Deposits and Investments (Continued)**

**Investments (Continued)**

**Credit Risk:**

As required by state statute or by the Town, the policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s or Fitch Investor’s Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody’s and Standard and Poor’s. Banker’s acceptances and certificates of deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Open-ended investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody’s or Standard & Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard & Poor’s.

**Concentration of Credit Risk:**

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the policy places no limit on the amount the Town may invest in any one issuer.

**Interest Rate Risk:**

As of June 30, 100% of the portfolio will mature in less than one year. The Town does not have a formal policy limiting investment maturities.

**Custodial Credit Risk:**

The policy requires that all investment securities purchased be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, investments are held in a bank’s trust department in the Town’s name.

**Restricted Amounts:**

Restricted cash and cash equivalents consist of amounts held for performance bonds of \$1,156,575, unspent bond proceeds of \$4,498,726, proffers of \$628,030, \$822,133 for perpetual care of cemetery, and \$289,028 of unspent grant proceeds and asset seizure funds.

In addition, the IDA held restricted cash for payments made by the Salem Volunteer Fire Department, in the amount of \$50,830. These funds will be used towards the IDA’s payment on their Rural Development loan described in more detail in Notes 3 and 8.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 3. Receivables**

**Primary Government:**

Receivables for the individual funds are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Total</u>
Receivables					
Taxes	\$ 578,249	\$ -	\$ -	\$ -	\$ 578,249
Accounts	<u>470,314</u>	<u>412,988</u>	<u>529,622</u>	<u>1,433,113</u>	<u>2,846,037</u>
Gross receivables	1,048,563	412,988	529,622	1,433,113	3,424,286
Less: allowance for uncollectibles	<u>(241,243)</u>	<u>(13,208)</u>	<u>(46,678)</u>	<u>(49,184)</u>	<u>(350,313)</u>
Receivables, net	<u>\$ 807,320</u>	<u>\$ 399,780</u>	<u>\$ 482,944</u>	<u>\$ 1,383,929</u>	<u>\$ 3,073,973</u>

The Town entered into a \$50,000 note receivable from State Theater Foundation, Inc. through the Façade Improvement program on October 2, 2013. The loan has 0% interest and is due in a lump sum payment in five years.

**Industrial Development Authority:**

In September 2012, the Industrial Development Authority (IDA) obtained a loan through Rural Development on behalf of the Salem Volunteer Fire Department. The loan was used to pay down a loan the Fire Department acquired in 2006 to construct and equip a fire station. The IDA is leasing the property back to the fire department for annual rent of \$47,630, which represents the principal and interest due on the loan each year. The lease is considered a financing lease. This amount has been recorded as a note receivable and had a balance of \$983,859 at June 30, 2016. The County of Culpeper has provided a moral obligation to pay any amounts due the IDA should the Fire Department be unable to meet its obligations. The annual requirements to amortize the long-term receivable and related interest are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 14,425	\$ 33,205
2018	14,912	32,718
2019	15,415	32,215
2020	15,935	31,695
2021	16,473	31,157
2022-2026	91,089	147,061
2027-2031	107,533	130,617
2032-2036	126,947	111,204
2037-2041	149,864	88,286
2042-2046	176,920	61,230
2047-2051	208,858	29,291
2052	<u>45,488</u>	<u>1,535</u>
	<u>\$ 983,859</u>	<u>\$ 730,214</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 4. Interfund Advance and Transfers**

During 2016, the water fund advanced \$280,000 to the electric fund. The primary purpose of the advance is to fund capital project expenditures.

The annual requirements to amortize the advance and related interest are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 54,891	\$ 2,800
2018	55,440	2,251
2019	55,995	1,697
2020	56,554	1,137
2021	57,120	571
	<u>\$ 280,000</u>	<u>\$ 8,456</u>

Interfund transfers are as follows:

<b>Transfer Out Fund</b>	<b>Transfer In Fund</b>	<b>Amount</b>
Water	General	\$ 99,675
Wastewater	General	127,260
Electric	General	366,603
		<u>\$ 593,538</u>

The primary purpose of the transfers to the general fund is payments in lieu of taxes.

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

Amounts due from other governmental units are as follows:

County of Culpeper:	
Local sales tax (General Fund)	\$ 272,915
Parking Authority (General Fund)	51,096
Federal and Commonwealth of Virginia:	
VDOT (General Fund)	406,804
Other (General Fund)	96,741
USDA (Water)	133,127
VMEA (Electric Fund)	21,115
Other (Wastewater Fund)	33,874
Total due from other governmental units	<u>\$ 1,015,672</u>



**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 6. Capital Assets**

Capital asset activity for the year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance As restated Note (12)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land and easements	\$ 3,762,810	\$ 369,748	\$ -	\$ 4,132,558
Construction in progress	1,432,104	220,503	(185,874)	1,466,733
Total capital assets, not depreciated	5,194,914	590,251	(185,874)	5,599,291
Capital assets, depreciated:				
Buildings and improvements	23,029,354	538,639	-	23,567,993
Machinery and equipment	7,584,651	588,741	-	8,173,392
Infrastructure	60,620,350	-	-	60,620,350
Total capital assets, depreciated	91,234,355	1,127,380	-	92,361,735
Less accumulated depreciation:				
Buildings and improvements	11,121,710	530,749	-	11,652,459
Machinery and equipment	5,559,001	449,693	-	6,008,694
Infrastructure	22,888,702	1,573,662	-	24,462,364
Total accumulated depreciation	39,569,413	2,554,104	-	42,123,517
Net capital assets, depreciated	51,664,942	(1,426,724)	-	50,238,218
Governmental activities capital assets, net	<u>\$ 56,859,856</u>	<u>\$ (836,473)</u>	<u>\$ (185,874)</u>	<u>\$ 55,837,509</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 6. Capital Assets (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance As restated Note 12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 2,629,500	\$ -	\$ -	\$ 2,629,500
Construction in progress	3,166,819	2,295,606	(67,369)	5,395,056
Total capital assets, not depreciated	5,796,319	2,295,606	(67,369)	8,024,556
Capital assets, depreciated:				
Buildings and improvements	101,324,760	194,415	-	101,519,175
Machinery and equipment	9,130,774	386,569	-	9,517,343
Total capital assets, depreciated	110,455,534	580,984	-	111,036,518
Less accumulated depreciation:				
Buildings and improvements	50,971,151	2,365,142	-	53,336,293
Machinery and equipment	4,131,585	686,187	-	4,817,772
Total accumulated depreciation	55,102,736	3,051,329	-	58,154,065
Net capital assets, depreciated	55,352,798	(2,470,345)	-	52,882,453
Business-type activities capital assets, net	<u>\$ 61,149,117</u>	<u>\$ (174,739)</u>	<u>\$ (67,369)</u>	<u>\$ 60,907,009</u>

Depreciation expense was charged to functions/programs as follows:

**Primary Government – Governmental Activities**

General government administration	\$ 383,141
Public safety	320,691
Public works	1,802,014
Parks, recreation, and cultural	27,886
Community development	20,372
Total governmental activities	<u>\$ 2,554,104</u>

**Primary Government – Business-Type Activities**

Water	\$ 778,794
Wastewater	1,317,813
Electric	954,722
Total business-type activities	<u>\$ 3,051,329</u>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan**

**Plan Description**

All full-time, salaried permanent employees of the Town of Culpeper, Virginia, (the “Political Subdivision”) are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

**Plan 1** – Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Plan 1 (Continued)**

- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Plan 2** - Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan** – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions** – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
  - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
  - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

• **Vesting –**

- **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
- **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

• **Calculating the Benefit –**

- **Defined Benefit Component:** See definition under Plan 1.
- **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component:** Same as Plan 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

**Employees Covered by Benefit Terms**

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b><u>Number</u></b>
Inactive members or their beneficiaries currently receiving benefits	<u>94</u>
Inactive members:	
Vested inactive members	22
Non-vested inactive members	39
Inactive members active elsewhere in VRS	<u>54</u>
Total inactive members	115
Active members	<u>165</u>
Total covered employees	<u><u>374</u></u>



**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 12.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,142,005 and \$1,142,457 for the years ended June 30, 2016 and June 30, 2015, respectively.

**Net Pension Liability**

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions**

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees - Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates: General employees - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Long-Term Expected Rate of Return (Continued)**

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
<b>Total</b>	<b>100.00 %</b>		<b>5.83 %</b>
	<b>Inflation</b>		<b>2.50 %</b>
	<b>Expected arithmetic nominal return</b>		<b>8.33 %</b>

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Changes in Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at June 30, 2014	\$ 34,278,064	\$ 28,273,657	\$ 6,004,407
Changes for the year:			
Service cost	945,867	-	945,867
Interest	2,338,187	-	2,338,187
Differences between expected and actual experience	27,383	-	27,383
Contributions – employer	-	1,104,432	(1,104,432)
Contributions – employee	-	429,532	(429,532)
Net investment income	-	1,292,934	(1,292,934)
Benefit payments, including refunds of employee contributions	(1,750,779)	(1,750,779)	-
Administrative expenses	-	(17,631)	17,631
Other changes	-	(272)	272
Net changes	1,560,658	1,058,216	502,442
Balances at June 30, 2015	\$ 35,838,722	\$ 29,331,873	\$ 6,506,849

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's net pension liability	\$ 11,426,911	\$ 6,506,849	\$ 2,442,596

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$612,535. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 20,847	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	750,851
Employer contributions subsequent to the measurement date	<u>1,142,005</u>	<u>-</u>
Total	<u><u>\$ 1,162,852</u></u>	<u><u>\$ 750,851</u></u>

The \$1,142,005 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2017	\$ (288,949)
2018	(288,949)
2019	(288,952)
2020	136,846
2021	-
Thereafter	-

**Payables to the Pension Plan**

At June 30, 2016, approximately \$96,100 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Long-Term Liabilities**

**Primary Government**

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

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within One Year</u></b>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 17,132,434	\$ 4,990,000	\$ 6,493,498	\$ 15,628,936	\$ 1,249,268
Bond premium	654,756	1,115,879	436,503	1,334,132	96,787
Other post-employment benefits	176,858	89,668	30,677	235,849	-
Compensated absences	602,755	791,056	712,235	681,576	545,261
Governmental activities long-term liabilities	<u>\$ 18,566,803</u>	<u>\$ 6,986,603</u>	<u>\$ 7,672,913</u>	<u>\$ 17,880,493</u>	<u>\$ 1,891,316</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 34,142,743	\$ 15,755,000	\$ 18,381,680	\$ 31,516,063	\$ 1,996,732
Other obligations payable	150,658	-	69,478	81,180	42,480
Bond premium	535,052	2,393,754	360,032	2,568,774	149,345
Other post-employment benefits	75,462	35,433	12,123	98,772	-
Compensated absences	259,084	320,960	318,153	261,891	209,513
Business-Type activities long-term liabilities	<u>\$ 35,162,999</u>	<u>\$ 18,505,147</u>	<u>\$ 19,142,466</u>	<u>\$ 34,526,680</u>	<u>\$ 2,398,070</u>

Governmental activities long-term liabilities are liquidated by the general fund.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Long-Term Liabilities (Continued)**

**Primary Government (Continued)**

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

<b>Year Ended June 30</b>	<b>Governmental Activities</b>					
	<b>General Obligation Bonds</b>					
	<b>Principal</b>		<b>Interest</b>			
2017	\$	1,249,268	\$	639,085		
2018		1,265,780		686,237		
2019		1,284,036		621,673		
2020		1,214,548		584,055		
2021		1,189,804		547,277		
2022-2026		6,014,000		1,062,611		
2027-2031		2,681,500		210,885		
2032-2033		730,000		15,435		
	\$	15,628,936	\$	4,367,258		

<b>Year Ended June 30</b>	<b>Business-Type Activities</b>					
	<b>General Obligation Bonds</b>		<b>Other Obligations Payable</b>		<b>Total Long-Term Obligations</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 1,996,732	\$ 1,541,547	\$ 42,480	\$ 3,113	\$ 2,039,212	\$ 1,544,660
2018	1,941,220	1,716,604	38,700	1,584	1,979,920	1,718,188
2019	1,471,964	1,060,965	-	-	1,471,964	1,060,965
2020	1,513,452	1,013,488	-	-	1,513,452	1,013,488
2021	1,567,195	964,557	-	-	1,567,195	964,557
2022-2026	7,611,000	3,298,497	-	-	7,611,000	3,298,497
2027-2031	7,256,500	2,010,621	-	-	7,256,500	2,010,621
2032-2036	6,198,000	822,756	-	-	6,198,000	822,756
2037-2048	1,960,000	59,250	-	-	1,960,000	59,250
	\$ 31,516,063	\$ 12,488,285	\$ 81,180	\$ 4,697	\$ 31,597,243	\$ 12,492,982

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Long-Term Liabilities (Continued)**

**Primary Government (Continued)**

Details of long-term indebtedness are as follows:

**General Obligation Bonds:**

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Public Improvement and Refunding Bond	4.46 %	2002	2018	\$ 8,018,000	\$ -	\$ 1,013,000
Public Improvement Bond	3.25 - 4.50	2008	2038	17,895,000	205,000	725,000
Refunding Bond	2.75	2010	2030	19,925,000	3,178,436	3,256,563
Public Improvement Bond	1.57	2011	2016	900,000	160,000	-
Public Improvement Bond	2.10	2013	2033	10,000,000	3,280,000	6,095,000
Public Improvement Bond	2.33	2014	2028	4,796,000	3,486,500	989,500
Public Improvement Bond	1.51	2014	2019	430,000	329,000	-
Public Improvement Bond	2.95	2014	2035	3,800,000	-	3,682,000
Refunding Bond	2.39	2016	2037	20,745,000	4,990,000	15,755,000
					15,628,936	31,516,063

**Other Obligations Payable:**

Capital lease	3.10%	2014	2018	\$ 212,665	-	81,180
Total long-term debt					\$ 15,628,936	\$ 31,597,243

**Line of Credit**

During 2013, the Town obtained a \$5,000,000 line of credit for the purpose of funding construction costs related to the Inner Loop project while awaiting reimbursement from VDOT. The line bears interest at 1-month LIBOR plus 1.05%. At June 30, 2016, no amounts were outstanding on this line of credit. The line matured on August 1, 2016, at which time all outstanding amounts were due and payable.

**Obligations Under Capital Leases**

The Town leased a vehicle and truck under a capital lease expiring in 2018. The assets acquired have a cost of \$212,665 and accumulated depreciation of \$26,583, resulting in a net book value of \$186,082.

**Current Year Refunding of Debt**

In June 2016, the Town issued \$20,745,000 in refunding bonds with interest rates ranging from 2.0% - 5.0%. These bonds were issued to refund \$21,905,000 in outstanding bonds. The proceeds were placed in trust with an escrow agent to fund all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Town's long-term debt. This refunding was undertaken to reduce total debt service payment over the next 22 years by \$2,980,437 and to obtain an economic gain of \$2,208,349. The amount still outstanding as of June 30, 2016 was \$21,905,000 related to current year refunding.



**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Long-Term Liabilities (Continued)**

**Discretely Presented Component Unit:**

**Industrial Development Authority**

During 2013, the IDA issued Rural Development debt to assist the Salem Volunteer Fire Department to pay off a bank loan. The IDA obtained title to the property and then leased the property to the Fire Department through a financing lease as discussed in Note 3.

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within One Year</u></b>
Rural Development Loan	\$ 1,011,311	\$ -	\$ 13,498	\$ 997,813	\$ 13,954

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

<b><u>Year Ended June 30</u></b>	<b><u>Rural Development Loan</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2017	\$ 13,954	\$ 33,676
2018	14,425	33,205
2019	14,912	32,718
2020	15,415	32,215
2021	15,935	31,695
2022-2026	88,115	150,035
2027-2031	104,023	134,127
2032-2036	122,802	115,348
2037-2041	144,972	93,178
2042-2046	171,144	67,006
2047-2051	202,040	36,110
2052-2053	90,076	4,577
	<b><u>\$ 997,813</u></b>	<b><u>\$ 763,890</u></b>

Details of long-term indebtedness are as follows:

	<b><u>Interest Rates</u></b>	<b><u>Date Issued</u></b>	<b><u>Maturity Date</u></b>	<b><u>Amount of Original Issue</u></b>	<b><u>Industrial Development Authority</u></b>
Rural Development Loan	3.36%	2013	2053	\$ 1,037,000	<b><u>\$ 997,813</u></b>

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 9. Unavailable and Unearned Revenue**

The following is a summary of unavailable and unearned revenue:

	<b>General Fund</b>	<b>Industrial Development Authority</b>
Interest collected in advance from the fire department (unearned)	\$ -	\$ 8,082
Total unearned revenue	-	8,082
Debt payments received in advance (unearned)	-	42,748
Uncollected property tax billing (unavailable)	429,484	-
Total unavailable/unearned revenue	\$ 429,484	\$ 50,830

**Note 10. Other Post-Employment Benefits**

**Plan Description**

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of Town Council, which may also amend the plan as deemed appropriate.

Participants in the Town's OPEB plan must meet eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit. Participants must meet eligibility for retirement or disability retirement with VRS to be eligible for health benefits. In addition, retirees must have 10 years of service with the Town. General government participants must have attained age 50 with a minimum of 30 years of service. Law enforcement officers participants must have attained age 50 with a minimum of 25 years of service.

Health benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65. The number of participants at June 30, 2016 was as follows:

Retirees currently receiving benefits	7
Active employees	173
Total	180

**Funding Policy**

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 10. Other Post-Employment Benefits (Continued)**

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

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

Annual required contribution	\$ 125,600
Interest on net OPEB obligation	8,831
Adjustment to annual required contribution	<u>(9,330)</u>
Annual OPEB cost	125,101
Contributions made	<u>(42,800)</u>
Increase in net OPEB obligation	82,301
Net OPEB obligation – beginning of year	<u>252,320</u>
Net OPEB obligation – end of year	<u><u>\$ 334,621</u></u>

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

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2016	\$ 125,101	34.21%	\$ 334,621
June 30, 2015	\$ 76,181	46.86%	\$ 252,320
June 30, 2014	\$ 73,252	51.33%	\$ 211,839

**Funding Status and Funding Progress**

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

Actuarial Accrued Liability (AAL)	\$ 1,260,700
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,260,700
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 9,497,400
UAAL as a Percentage of Covered Payroll	13.27 %

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

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 10. Other Post-Employment Benefits (Continued)**

**Actuarial Methods and Assumptions**

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

In the June 30, 2016 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.50% rate of return and an annual healthcare cost trend of 6.90% in 2016, 7.10% in 2017, and 5.40% in 2018, reduced by decrements each year thereafter to arrive at an ultimate healthcare cost trend rate of 4.10%. The unfunded accrued liability is being amortized over 30 years as a level percent of payroll method on an open basis. Payroll and inflation is assumed to increase 3.00% per annum. The remaining amortization period at June 30, 2016 is 30 years.

**Note 11. Fund Balance**

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the general fund balance and other governmental funds balance are presented below:

	<b>General Fund</b>	<b>Other Governmental Funds</b>
Restricted for:		
Community development – unused grant proceeds	\$ 287,666	\$ -
Capital projects – unused bond proceeds	4,482,864	-
Community development – proffers	628,030	-
Asset seizure funds	1,362	-
Cemetery perpetual care	-	822,133
Total restricted	<u>5,399,922</u>	<u>822,133</u>
Committed to:		
General government administration – unused capital project funds allocated to FY16	<u>176,088</u>	<u>-</u>
Total committed	<u>176,088</u>	<u>-</u>
Assigned to:		
General government administration – unused capital project funds allocated to FY16	23,203	-
Public works – unused capital project funds allocated to FY16	425,000	-
Total assigned	<u>448,203</u>	<u>-</u>
Unassigned	<u>5,663,645</u>	<u>-</u>
Total fund balance	<u>\$ 11,687,858</u>	<u>\$ 822,133</u>

(Continued)

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 12. Prior Period Restatement**

The following is a summary of the restatements to net position:

	<u>Water</u>	<u>Electric</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
Net Position, July 1, 2015	\$ 21,861,103	\$ 5,332,443	\$ 49,821,621	\$ 45,602,022
To correct depreciation	<u>(43,394)</u>	<u>(43,971)</u>	<u>(87,365)</u>	<u>(12,401)</u>
Net Position, July 1, 2015 as restated	<u>\$ 21,817,709</u>	<u>\$ 5,288,472</u>	<u>\$ 49,734,256</u>	<u>\$ 45,589,621</u>

**Note 13. Service Contracts**

The Town is a member of the Virginia Municipal Electric Association (VMEA) which is a nonprofit organization created to purchase electricity from Dominion Virginia Power (Dominion) for resale to its members. A new contract was entered into in 2011, which extends VMEA's purchase agreement with Dominion to 2030. Purchases of electricity through VMEA totaled \$6,914,894 for the year ended June 30, 2016. Of these purchases, \$661,611 is included in accounts payable as of June 30, 2016. The Town's contract provides for periodic true-ups based on actual costs incurred by Dominion. Such true-ups could result in an increase or reduction of expenses previously recognized. The Town's policy is to recognize the true-up when known due to a lack of information to estimate such an amount. The true-up calculation generally is proposed approximately six months after the calendar year end.

**Note 14. Property Taxes**

Property is assessed and taxes are levied for both real estate and personal property, on January 1 for the assessment date, and become a lien as of that date. Tax assessments and levy information are provided by Culpeper County. Real estate and personal property taxes are payable in one annual installment on the following January 31 and February 29, respectively. The real estate tax rate for 2015 taxes due January 31, 2016 was \$.11 per \$100 of assessed value. Residents who live in the Southridge, Lafayette Ridge, and Willow Shade districts pay an additional special assessment of \$.15, \$.10, and \$.06 per \$100 of assessed value, respectively. The personal property and business equipment tax rate was \$1.00 per \$100 of assessed value. The machinery and tools tax rate was \$.80 per \$100 of assessed value. A penalty of 10% for late payment and interest at the rate of 10% are charged on unpaid balances. The Town bills and collects its own property taxes.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 15. Risk Management**

The Risk Management programs of the Town are as follows:

**Workers' Compensation**

The Town is a member of the Virginia Municipal League (VML) Insurance Programs for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates and claims experience. Total premiums for 2016 were approximately \$179,500.

**General Liability and Other**

The Town purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from VML Insurance Programs. The Town's property and contents are insured up to a limit of approximately \$77 million. The Town maintains an additional \$10,000,000 umbrella policy over all forms of liability insurance. The Town's Public Officials and Law Enforcement Liability coverages, with a \$10,000,000 limit for each, are provided through a policy with the VML Insurance Programs. Total premiums for 2016 were approximately \$210,500.

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

**Note 16. Commitments and Contingencies**

**Grant Programs**

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

**Litigation**

Certain lawsuits and potential claims are pending against the Town. In the opinion of the Town's management, after consulting with counsel, the potential loss, if any, is unknown. The Town is vigorously defending its position.

**Reservoir Improvement Projects**

The Town is required by a regulatory agency to make significant improvements to its reservoirs at an estimated cost of \$16.5 million. The Town received two grants totaling \$10.5 million to develop rehabilitation plans. The Town believes additional grant funding will be available to assist with the design and certain construction phases of the project and plans future issuances of long-term borrowings. The Town has been requested to match an estimated \$5.8 million for the project. The Town is seeking financial assistance from the State for this match.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 17. New Accounting Standards**

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

**TOWN OF CULPEPER, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

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



## **REQUIRED SUPPLEMENTARY INFORMATION**

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## TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 3,019,750	\$ 3,019,750	\$ 3,102,450	\$ 82,700
Local sales and use taxes	1,450,000	1,450,000	1,341,050	(108,950)
Business license tax	981,000	981,000	1,043,272	62,272
Franchise license tax	143,500	143,500	119,031	(24,469)
Bank stock tax	290,000	290,000	338,243	48,243
Cigarette tax	162,000	162,000	167,265	5,265
Hotel and motel room tax	270,000	270,000	342,965	72,965
Food and beverage tax	3,600,000	3,600,000	3,941,061	341,061
Local consumption tax	61,000	61,000	61,254	254
Permits, privilege fees, and regulatory licenses	280,325	280,325	364,246	83,921
Fines and forfeitures	100,000	100,000	118,324	18,324
Revenues from use of money and property	216,000	216,000	212,379	(3,621)
Charges for services	265,372	265,372	279,147	13,775
Other	95,345	95,345	196,889	101,544
Recovered costs	2,213,494	2,213,494	2,208,363	(5,131)
Intergovernmental	2,383,035	2,383,035	2,690,525	307,490
Total revenues	15,530,821	15,530,821	16,526,464	995,643
<b>EXPENDITURES</b>				
Current:				
General government administration				
Town council	193,171	196,080	177,274	18,806
Town manager	112,090	112,090	104,067	8,023
Town clerk	284,464	301,958	266,292	35,666
Human resources	293,656	283,058	277,541	5,517
Legal services	100,880	110,730	110,707	23
Independent auditor	80,000	56,390	53,050	3,340
Treasurer	1,272,729	1,184,311	1,167,101	17,210
Risk management	130,287	120,437	106,867	13,570
Information technology	1,101,782	1,101,782	1,091,141	10,641
Motor pool	242,237	242,237	236,493	5,744
Total general government administration	3,811,296	3,709,073	3,590,533	118,540
Public safety				
Police department	4,649,587	4,649,587	4,619,766	29,821
Total public safety	4,649,587	4,649,587	4,619,766	29,821

## TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Public works				
Public works administration	\$ 245,860	\$ 256,458	\$ 256,357	\$ 101
Streets	2,356,654	2,484,391	2,087,041	397,350
Refuse collection	396,327	396,327	383,294	13,033
General properties	473,882	962,357	787,772	174,585
Total public works	<u>3,472,723</u>	<u>4,099,533</u>	<u>3,514,464</u>	<u>585,069</u>
Parks, recreation, and cultural				
Parks and recreation	591,941	622,193	597,995	24,198
Cemetery	146,519	146,519	132,189	14,330
Total parks, recreation, and cultural	<u>738,460</u>	<u>768,712</u>	<u>730,184</u>	<u>38,528</u>
Community development				
Planning and zoning	562,357	562,357	514,597	47,760
Visitors center	55,628	55,628	54,902	726
Tourism	280,540	341,176	345,867	(4,691)
Economic development	188,750	188,750	179,298	9,452
Contributions	326,969	326,969	320,116	6,853
Total community development	<u>1,414,244</u>	<u>1,474,880</u>	<u>1,414,780</u>	<u>60,100</u>
Capital projects	<u>736,907</u>	<u>4,216,318</u>	<u>884,820</u>	<u>3,331,498</u>
Debt service:				
Principal retirement	1,281,012	1,372,012	1,227,548	144,464
Interest and fiscal charges	515,130	515,130	511,519	3,611
Bond issuance costs	-	-	73,022	(73,022)
Total debt service	<u>1,796,142</u>	<u>1,887,142</u>	<u>1,812,089</u>	<u>75,053</u>
Total expenditures	<u>16,619,359</u>	<u>20,805,245</u>	<u>16,566,636</u>	<u>4,238,609</u>
Excess of expenditures over revenues	<u>(1,088,538)</u>	<u>(5,274,424)</u>	<u>(40,172)</u>	<u>5,234,252</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of general obligation bonds	-	-	6,105,879	6,105,879
Payments to escrow agent	-	-	(6,036,403)	(6,036,403)
Proceeds from sale of assets	-	-	299,932	299,932
Transfers in	<u>593,538</u>	<u>593,538</u>	<u>593,538</u>	<u>-</u>
Total other financing sources (uses)	<u>593,538</u>	<u>593,538</u>	<u>962,946</u>	<u>369,408</u>
Net change in fund balances	<u>\$ (495,000)</u>	<u>\$ (4,680,886)</u>	<u>\$ 922,774</u>	<u>\$ 5,603,660</u>

Note 1: The budget is adopted in accordance with the modified accrual basis of accounting.

## TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**  
**June 30, 2016**

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as of Percentage of Covered Payroll</b>
<b>OTHER POST-EMPLOYMENT BENEFITS</b>						
June 30, 2016	\$ -	\$ 1,260,700	\$ 1,260,700	0.00%	\$ 9,497,400	13.27%
June 30, 2013	\$ -	\$ 750,200	\$ 750,200	0.00%	\$ 7,950,900	9.44%
June 30, 2010	\$ -	\$ 645,400	\$ 645,400	0.00%	\$ 7,408,500	8.71%

## TOWN OF CULPEPER, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**June 30, 2016**

	<b>Plan Year</b>	
	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>		
Service cost	\$ 945,867	\$ 910,207
Interest on total pension liability	2,338,187	2,233,895
Difference between expected and actual experience	27,383	-
Benefit payments, including refunds of employee contributions	(1,750,779)	(1,557,640)
Net change in total pension liability	1,560,658	1,586,462
<b>Total pension liability - beginning</b>	<b>34,278,064</b>	<b>32,691,602</b>
<b>Total pension liability - ending</b>	<b>35,838,722</b>	<b>34,278,064</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	1,104,432	965,805
Contributions - employee	429,532	413,261
Net investment income	1,292,934	3,870,612
Benefit payments, including refunds of employee contributions	(1,750,779)	(1,557,640)
Administrative expenses	(17,631)	(20,826)
Other	(272)	204
Net change in plan fiduciary net position	1,058,216	3,671,416
<b>Plan fiduciary net position - beginning</b>	<b>28,273,657</b>	<b>24,602,241</b>
<b>Plan fiduciary net position - ending</b>	<b>29,331,873</b>	<b>28,273,657</b>
<b>Net pension liability - ending</b>	<b>\$ 6,506,849</b>	<b>\$ 6,004,407</b>
Plan fiduciary net position as a percentage of total pension liability	82%	82%
Covered employee payroll	\$ 8,678,245	\$ 8,329,057
Net pension liability as a percentage of covered employee payroll	75%	72%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

## TOWN OF CULPEPER, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**June 30, 2016**

<b>Total Fiscal Year Ended June 30</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a percentage of Covered Payroll</b>
<b>Primary Government</b>					
2016	\$ 1,142,005	\$ 1,142,005	\$ -	\$ 9,273,088	12.32%
2015	\$ 1,142,457	\$ 1,142,457	\$ -	\$ 8,678,245	13.16%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

## **TOWN OF CULPEPER, VIRGINIA**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2016**

#### **Note 1. Changes of Benefit Terms**

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

#### **Note 2. Changes of Assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

## **OTHER SUPPLEMENTARY INFORMATION**

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## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND - PARKING AUTHORITY**  
**June 30, 2016**

	<u>Balances Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances Ending</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	53,889	53,889	\$ -
Receivables	6,549	1,914	-	8,463
Future amounts to be collected to liquidate liabilities	44,616	-	1,983	42,633
Total assets	<u>\$ 51,165</u>	<u>\$ 55,803</u>	<u>\$ 55,872</u>	<u>\$ 51,096</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 51,165	\$ 267	\$ 336	\$ 51,096
Total liabilities	<u>\$ 51,165</u>	<u>\$ 267</u>	<u>\$ 336</u>	<u>\$ 51,096</u>

## TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET – GOVERNMENTAL FUND  
DISCRETELY PRESENTED COMPONENT UNIT  
June 30, 2016**

	<b>Industrial Development Authority</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 79,398
Cash and cash equivalents, restricted	50,830
Total assets	<u>\$ 130,228</u>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	
Deferred inflows of resources:	
Payments received in advance	\$ 50,830
Total deferred inflows of resources	<u>50,830</u>
Fund Balance:	
Assigned	<u>79,398</u>
Total fund balance	<u>79,398</u>
Total liabilities and fund balance	<u>\$ 130,228</u>
<b>Amounts reported in the Statement of Net Position (Exhibit 1) are different because:</b>	
Total fund balance	\$ 79,398
Long-term assets, including notes receivable, are not due and receivable in the current period and therefore are not reported in the funds.	983,859
Debt payments received in advance create a deferral at the fund level for the entire amount; however, offset the note receivable and any interest earned to date on the Statement of Net Position.	42,748
Long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,023,407)</u>
<b>Net position of governmental activities</b>	<u>\$ 82,598</u>

## TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUND  
DISCRETELY PRESENTED COMPONENT UNIT  
Year Ended June 30, 2016**

	<b>Industrial Development Authority</b>
	<hr/>
<b>REVENUES</b>	
Intergovernmental grants	\$ 209,140
	<hr/>
Total revenues	209,140
	<hr/>
<b>EXPENDITURES</b>	
Community development	209,045
	<hr/>
Total expenditures	209,045
	<hr/>
Excess of revenue over expenditures	95
	<hr/>
Net change in fund balance	95
	<hr/>
<b>FUND BALANCE AT JULY 1</b>	79,303
	<hr/>
<b>FUND BALANCE AT JUNE 30</b>	\$ 79,398
	<hr/> <hr/>

**Amounts reported for governmental activities in the Statement of Activities are different because:**

<b>Net change in fund balance</b>	\$ 95
Collections of payments on long term notes receivable are revenues in the governmental fund but reductions of notes receivable on the statement of net position.	(13,954)
Interest earned related to long-term notes receivable does not represent current financial resources and therefore are not reported as revenue in the funds.	273
Repayment of debt is an expenditure in the governmental fund but reduces long-term liabilities in the statement of net position.	13,498
Accrued interest reported in the Statement of Activities does not require the use of current financial resources and, therefore is not reported as expenditures in governmental funds.	346
	<hr/>
<b>Change in net position of governmental activities</b>	\$ 258
	<hr/> <hr/>

# STATISTICAL SECTION

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*This part of the Town of Culpeper's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.*

<b><u>Contents</u></b>	<b><u>Table</u></b>
<b>Financial Trends</b> These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	<b>1-4</b>
<b>Revenue Capacity</b> These tables contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.	<b>5-8</b>
<b>Debt Capacity</b> These tables present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	<b>9-12</b>
<b>Demographic and Economic Information</b> These tables offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.	<b>13-14</b>
<b>Operating Information</b> These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services it provides and the activities it performs.	<b>15-17</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Town implemented GASB Statement 68 in 2015; schedules presenting government-wide information include information beginning in that year.

TABLE 1

## TOWN OF CULPEPER, VIRGINIA

## NET POSITION BY COMPONENT

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2016	2015 <sup>(1) (2)</sup>	2014 <sup>(2)</sup>	2013 <sup>(2)</sup>	2012	2011	2010	2009 <sup>(2)</sup>	2008	2007
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 43,759,691	\$ 43,149,400	\$ 35,443,423	\$ 25,529,232	\$ 17,766,505	\$ 19,571,754	\$ 21,719,577	\$ 23,576,860	\$ 21,499,768	\$ 19,617,242
Restricted	1,739,191	1,581,752	1,438,266	1,303,598	598,758	542,416	592,481	-	1,415,016	2,709,578
Unrestricted	1,364,636	870,870	4,622,870	2,015,193	9,013,312	8,022,110	5,600,105	3,726,292	5,849,000	6,705,638
Total governmental activities net position	<u>\$ 46,863,518</u>	<u>\$ 45,602,022</u>	<u>\$ 41,504,559</u>	<u>\$ 28,848,023</u>	<u>\$ 27,378,575</u>	<u>\$ 28,136,280</u>	<u>\$ 27,912,163</u>	<u>\$ 27,303,152</u>	<u>\$ 28,763,784</u>	<u>\$ 29,032,458</u>
<b>Business-Type Activities</b>										
Net investment in capital assets	\$ 27,865,064	\$ 26,550,954	\$ 27,911,757	\$ 25,590,844	\$ 29,971,833	\$ 27,499,978	\$ 28,124,024	\$ 22,251,714	\$ 14,111,003	\$ 21,597,950
Restricted	-	-	-	-	-	-	-	2,470,415	19,219,105	-
Unrestricted	23,628,617	23,270,667	23,275,294	25,738,585	21,724,844	24,972,697	24,981,973	26,519,207	17,729,092	23,539,073
Total business-type activities net position	<u>\$ 51,493,681</u>	<u>\$ 49,821,621</u>	<u>\$ 51,187,051</u>	<u>\$ 51,329,429</u>	<u>\$ 51,696,677</u>	<u>\$ 52,472,675</u>	<u>\$ 53,105,997</u>	<u>\$ 51,241,336</u>	<u>\$ 51,059,200</u>	<u>\$ 45,137,023</u>
<b>Primary Government</b>										
Net investment in capital assets	\$ 71,624,755	\$ 69,700,354	\$ 63,355,180	\$ 51,120,076	\$ 47,738,338	\$ 47,071,732	\$ 49,843,601	\$ 45,828,574	\$ 35,610,771	\$ 41,215,192
Restricted	1,739,191	1,581,752	1,438,266	1,303,598	598,758	542,416	592,481	2,470,415	20,634,121	2,709,578
Unrestricted	24,993,253	24,141,537	27,898,164	27,753,778	30,738,156	32,994,807	30,582,078	30,245,499	23,578,092	30,244,711
Total primary government net position	<u>\$ 98,357,199</u>	<u>\$ 95,423,643</u>	<u>\$ 92,691,610</u>	<u>\$ 80,177,452</u>	<u>\$ 79,075,252</u>	<u>\$ 80,608,955</u>	<u>\$ 81,018,160</u>	<u>\$ 78,544,488</u>	<u>\$ 79,822,984</u>	<u>\$ 74,169,481</u>

<sup>(1)</sup> GASB Statement No. 68 was adopted in fiscal year 2015.<sup>(2)</sup> These totals are as previously reported. A prior period adjustment was required which modified these amounts.

TABLE 2

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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Expenses</b>										
<b>Governmental Activities:</b>										
General government	\$ 1,782,797	\$ 1,580,634	\$ 2,069,656	\$ 1,820,939	\$ 2,014,118	\$ 1,337,825	\$ 1,257,522	\$ 1,620,482	\$ 1,179,182	\$ 1,923,079
Public safety	4,826,442	4,466,205	4,620,506	4,355,486	3,982,363	4,014,472	3,962,281	4,082,574	3,953,400	3,729,120
Public works	4,677,492	4,622,046	4,882,783	3,927,287	3,609,893	3,230,087	3,615,820	4,196,462	4,095,306	3,483,959
Health and welfare	-	-	-	-	-	-	-	11,378	5,129	6,907
Parks, recreation, and cultural	734,657	658,510	869,890	952,084	759,713	581,190	541,764	555,241	629,683	624,332
Community development	1,404,450	1,403,802	1,463,571	1,448,109	1,374,210	1,854,682	1,709,856	1,116,215	1,063,436	1,035,442
Interest on long-term debt	557,705	502,905	567,245	529,532	430,650	338,982	509,832	295,133	276,215	157,203
Total governmental activities	13,983,543	13,234,102	14,473,651	13,033,437	12,170,947	11,357,238	11,597,075	11,877,485	11,202,351	10,960,042
<b>Business-Type Activities:</b>										
Water	3,880,069	3,483,189	3,947,082	3,173,641	3,080,472	2,989,018	2,836,510	3,044,418	3,164,725	2,623,445
Wastewater	5,533,867	5,146,396	5,401,822	5,438,022	5,322,081	5,480,065	3,745,960	4,778,920	4,316,981	3,507,532
Electric	10,710,274	11,640,544	11,823,318	10,592,276	11,195,220	10,158,556	8,884,255	9,596,223	9,950,373	8,803,188
Total business-type activities expense	20,124,210	20,270,129	21,172,222	19,203,939	19,597,773	18,627,639	15,466,725	17,419,561	17,432,079	14,934,165
Total primary government expenses	34,107,753	33,504,231	35,645,873	32,237,376	31,768,720	29,984,877	27,063,800	29,297,046	28,634,430	25,894,207
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
Charges for services:										
General government	81,443	63,438	53,062	189,022	-	-	-	-	-	-
Public safety	195,365	159,236	157,238	185,890	244,823	188,207	217,637	158,783	157,226	151,259
Public works	432,509	390,969	322,027	224,756	216,426	134,538	149,335	75,307	110,628	155,174
Parks, recreation, and cultural	420,362	410,854	430,869	408,606	401,784	477,141	358,254	387,853	370,169	342,453
Community development	37,304	35,243	41,585	31,878	19,357	8,461	9,678	-	-	-
Operating grants and contributions	2,164,513	2,180,092	2,400,103	2,088,055	1,892,927	2,527,695	2,280,820	1,744,620	2,179,593	1,579,532
Capital grants and contributions	294,304	7,738,062	2,292,433	959,384	-	-	-	-	4,479	49,458
Total governmental activities program revenues	3,625,800	10,977,894	5,697,317	4,087,591	2,775,317	3,336,042	3,015,724	2,366,563	2,822,095	2,277,876
<b>Business-Type Activities:</b>										
Charges for services:										
Water	5,125,832	4,267,244	4,102,902	3,711,935	3,177,413	2,893,750	3,022,229	2,977,336	4,706,386	4,697,202
Wastewater	5,686,153	5,269,322	5,227,134	4,441,288	3,436,827	3,204,475	3,383,665	3,243,368	5,762,559	5,671,837
Electric	11,592,942	12,106,804	11,444,085	11,188,316	10,855,157	10,680,058	9,735,008	9,824,763	9,287,602	8,339,829
Capital grants and contributions	-	-	818,910	22,000	2,083	11,806	2,823,708	817,398	2,234,966	-
Total business-type activities program revenues	22,404,927	21,643,370	21,593,031	19,363,539	17,471,480	16,790,089	18,964,610	16,862,865	21,991,513	18,708,868
Total primary government program revenues	26,030,727	32,621,264	27,290,348	23,451,130	20,246,797	20,126,131	21,980,334	19,229,428	24,813,608	20,986,744
<b>Net (Expense) Revenue</b>										
Governmental activities	(10,357,743)	(2,256,208)	(8,776,334)	(8,945,846)	(9,395,630)	(8,021,196)	(8,581,351)	(9,510,922)	(8,380,256)	(8,682,166)
Business-type activities	2,280,717	1,373,241	420,809	159,600	(2,126,293)	(1,837,550)	3,497,885	(556,696)	4,559,434	3,774,703
Total primary government net expense	(8,077,026)	(882,967)	(8,355,525)	(8,786,246)	(11,521,923)	(9,858,746)	(5,083,466)	(10,067,618)	(3,820,822)	(4,907,463)

(Continued)

**TABLE 2**  
**(Continued)**

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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental Activities:</b>										
Taxes										
Property taxes	\$ 3,062,450	\$ 3,095,547	\$ 3,052,885	\$ 2,905,805	\$ 2,764,759	\$ 2,757,576	\$ 3,159,991	\$ 2,568,973	\$ 2,379,368	\$ 1,814,074
Sales taxes	1,363,040	1,371,546	1,409,401	1,299,219	1,257,483	986,332	1,069,068	937,575	934,160	930,601
Business license tax	1,043,272	1,035,641	1,044,986	1,092,986	1,060,265	1,010,056	1,103,611	1,064,862	1,231,754	1,270,923
Franchise license tax	119,031	123,143	123,331	126,439	137,179	140,920	125,654	141,265	142,676	142,279
Motor vehicle license	-	-	-	-	-	-	-	-	19,878	255,438
Bank stock tax	338,243	349,495	305,972	287,309	273,240	329,972	271,467	235,807	209,900	259,624
Cigarette tax	167,265	162,582	173,094	183,297	126,516	144,010	148,459	177,417	183,449	193,272
Hotel and motel room tax	342,965	325,775	328,032	249,896	299,089	256,929	256,849	225,343	224,213	231,472
Food and beverage tax	3,941,061	3,727,506	3,362,648	2,622,243	1,846,124	1,790,476	1,748,975	1,762,648	1,907,318	1,940,164
Local consumption tax	61,254	71,380	65,165	61,845	59,249	53,883	54,759	62,491	62,565	61,972
Other local taxes	-	-	4,918	971	2,195	4,074	4,245	-	-	-
Intergovernmental revenue	231,707	231,499	231,885	231,473	443,255	285,193	230,617	230,058	257,038	240,733
Investment earnings	36,412	18,793	20,845	25,279	13,663	22,309	25,398	135,773	265,207	210,197
Other	331,402	165,826	103,546	74,341	54,908	163,583	453,053	508,078	294,056	249,801
Special Item: Annexation of State Roads	-	-	-	680,433	-	-	-	-	-	-
Transfers	593,538	625,612	594,982	573,758	300,000	300,000	302,145	-	-	-
Total governmental activities	11,631,640	11,304,345	10,821,690	10,415,294	8,637,925	8,245,313	8,954,291	8,050,290	8,111,582	7,800,550
<b>Business-Type Activities:</b>										
Investment earnings	60,471	30,050	37,648	46,910	216,685	252,103	329,668	738,832	1,362,743	1,145,169
Other	8,301	6,668	-	-	1,433,610	1,252,125	573,216	-	-	-
Insurance recovery	3,474	7,929	447,114							
Transfers	(593,538)	(625,612)	(594,982)	(573,758)	(300,000)	(300,000)	(302,145)	-	-	-
Total business-type activities	(521,292)	(580,965)	(110,220)	(526,848)	1,350,295	1,204,228	600,739	738,832	1,362,743	1,145,169
Total primary government	11,110,348	10,723,380	10,711,470	9,888,446	9,988,220	9,449,541	9,555,030	8,789,122	9,474,325	8,945,719
<b>Changes in Net Position</b>										
Governmental activities	1,273,897	9,048,137	2,045,356	1,469,448	(757,705)	224,117	372,940	(1,460,632)	(268,674)	(881,616)
Business-type activities	1,759,425	792,276	310,589	(367,248)	(775,998)	(633,322)	4,098,624	182,136	5,922,177	4,919,872
Total primary government	\$ 3,033,322	\$ 9,840,413	\$ 2,355,945	\$ 1,102,200	\$ (1,533,703)	\$ (409,205)	\$ 4,471,564	\$ (1,278,496)	\$ 5,653,503	\$ 4,038,256

TABLE 3

## TOWN OF CULPEPER, VIRGINIA

## FUND BALANCES – GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2010	2009 <sup>(1)</sup>	2008	2007		
<b>Pre-GASB54:</b>						
<b>General Fund</b>						
Reserved	\$ 237,575	\$ -	\$ -	\$ -		
Unreserved	8,714,679	3,698,776	7,298,518	6,862,521		
Total general fund	<u>\$ 8,952,254</u>	<u>\$ 3,698,776</u>	<u>\$ 7,298,518</u>	<u>\$ 6,862,521</u>		
<b>All Other Governmental Funds</b>						
Unreserved, reported in:						
Permanent fund	\$ 478,881	\$ 421,547	\$ 412,282	\$ 350,169		
Total all other governmental funds	<u>\$ 478,881</u>	<u>\$ 421,547</u>	<u>\$ 412,282</u>	<u>\$ 350,169</u>		
	2016	2015 <sup>(1) (2)</sup>	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>	2012	2011
<b>Post-GASB54:</b>						
<b>General Fund</b>						
Nonspendable	\$ -	\$ -	\$ 86,437	\$ 146,178	\$ 80,810	\$ 58,070
Restricted	5,399,922	5,300,787	6,732,852	664,894	470,772	265,133
Committed	176,088	-	-	8,072,276	7,931,602	83,125
Assigned	448,203	86,656	352,985	1,353,321	648,657	4,557,951
Unassigned	5,663,645	5,377,641	4,726,934	823,784	314,975	4,000,756
Total general fund	<u>\$ 11,687,858</u>	<u>\$ 10,765,084</u>	<u>\$ 11,899,208</u>	<u>\$ 11,060,453</u>	<u>\$ 9,446,816</u>	<u>\$ 8,965,035</u>
<b>All Other Governmental Funds</b>						
Restricted	\$ 822,133	\$ 758,254	\$ 703,499	\$ 638,704	\$ 598,758	\$ 542,416
Total all other governmental funds	<u>\$ 822,133</u>	<u>\$ 758,254</u>	<u>\$ 703,499</u>	<u>\$ 638,704</u>	<u>\$ 598,758</u>	<u>\$ 542,416</u>

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

<sup>(2)</sup> For FY15, the previously reported nonspendable fund balance has been reclassified into the restricted fund balance to comply with the GASB Statement No. 54, reporting requirements for restrictions which are externally imposed.



TABLE 4

## TOWN OF CULPEPER, VIRGINIA

**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Revenues</b>										
Taxes	\$10,456,591	\$10,185,335	\$ 9,852,810	\$ 8,794,666	\$ 7,834,966	\$ 7,432,462	\$ 7,738,427	\$ 7,145,133	\$ 7,276,554	\$ 7,126,549
Permits, privilege fees, and licenses	364,246	275,969	304,884	255,905	294,185	278,571	256,426	178,108	201,372	231,778
Fines and forfeitures	118,324	122,292	103,206	129,654	129,778	123,623	166,292	158,783	157,226	151,259
Investment earnings	212,379	202,029	210,983	210,859	191,908	232,691	249,704	356,434	493,722	418,812
Charges for services	279,147	328,502	293,820	255,751	284,563	200,374	92,425	62,041	62,613	57,188
Other	196,889	300,545	216,950	288,051	46,727	122,168	401,587	510,323	297,707	249,847
Recovered costs	2,208,363	2,027,731	1,835,240	1,817,446	2,009,672	2,052,104	1,630,016	1,544,137	1,461,127	1,168,821
Grant proceeds	-	-	-	-	-	-	-	25,090	87,655	-
Intergovernmental	2,690,525	4,707,381	3,953,986	3,279,435	2,342,176	2,975,718	2,562,603	1,949,588	2,338,101	1,869,723
Total revenues	16,526,464	18,149,784	16,771,879	15,031,767	13,133,975	13,417,711	13,097,480	11,929,637	12,376,077	11,273,977
<b>Expenditures</b>										
General government	3,590,533	3,306,228	3,190,149	3,146,377	2,703,451	2,491,505	2,146,254	2,583,546	2,203,714	2,188,450
Public safety	4,619,766	4,317,699	4,290,573	4,018,716	3,902,392	3,920,633	3,866,967	4,006,766	3,972,387	3,762,629
Public works	3,514,464	3,259,396	3,330,713	3,110,447	3,045,848	2,820,311	2,678,356	3,287,064	2,413,634	2,637,275
Parks, recreation, and cultural	730,184	665,109	828,728	906,712	715,352	654,533	489,512	512,386	582,890	516,086
Health and welfare	-	-	-	-	-	-	-	11,378	5,129	6,907
Community development	1,414,780	1,425,637	1,435,055	1,286,951	1,335,520	1,140,210	1,233,053	1,115,101	1,069,575	1,052,548
Capital projects	884,820	5,709,587	5,466,703	3,918,542	841,828	1,628,829	2,174,668	3,408,564	2,557,650	1,263,391
Debt service:										
Principal	1,227,548	1,074,903	933,736	784,741	716,123	573,103	498,974	835,589	406,721	399,388
Interest	511,519	533,486	520,199	442,610	419,506	412,271	393,527	299,844	273,288	168,525
Bond issuance costs	73,022	7,896	53,236	56,846	115,832	150,834	27,991	-	-	-
Total expenditures	16,566,636	20,299,941	20,049,092	17,671,942	13,795,852	13,792,229	13,509,302	16,060,238	13,484,988	11,995,199
Excess of revenues over (under) expenditures	(40,172)	(2,150,157)	(3,277,213)	(2,640,175)	(661,877)	(374,518)	(411,822)	(4,130,601)	(1,108,911)	(721,222)
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	4,990,000	430,000	3,676,500	3,720,000	900,000	10,223,397	5,629,000	540,124	1,607,021	3,750,000
Bond premium on issuance	1,115,879	-	-	-	-	804,730	-	-	-	-
Payments to escrow agent	(6,036,403)	-	-	-	-	(10,877,293)	-	-	-	-
Proceeds from sale of assets	299,932	-	-	-	-	-	-	-	-	-
Transfers in	593,538	625,612	594,982	573,758	300,000	300,000	302,145	-	-	-
Total other financing sources (uses)	962,946	1,055,612	4,271,482	4,293,758	1,200,000	450,834	5,931,145	540,124	1,607,021	3,750,000
Net change in fund balances	\$ 922,774	\$ (1,094,545)	\$ 994,269	\$ 1,653,583	\$ 538,123	\$ 76,316	\$ 5,519,323	\$ (3,590,477)	\$ 498,110	\$ 3,028,778
Debt service as a percentage of noncapital expenditures	11.57%	11.23%	9.69%	8.98%	8.59%	7.91%	7.87%	9.86%	6.64%	5.59%

TABLE 5

## TOWN OF CULPEPER, VIRGINIA

**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
**Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Total Assessed Value	Total Direct Tax Rate(1)
				Real Estate	Personal Property		
2016	\$ 1,639,650,120	\$ 152,345,370	\$ 18,897,435	\$ 35,389,078	\$ 17,350	\$ 1,846,299,353	1.91
2015	1,430,676,100	145,472,196	19,641,375	29,676,346	48,955	1,625,514,972	1.91
2014	1,411,785,500	142,461,383	18,781,109	25,499,302	58,635	1,598,585,929	1.93
2013	1,346,564,800	134,140,673	16,413,572	39,446,496	357,302	1,536,922,843	1.93
2012	1,155,780,300	126,677,786	16,266,484	40,816,355	79,380	1,339,620,305	1.93
2011	1,287,542,000	133,963,333	20,757,388	48,045,998	1,911,743	1,492,220,462	1.93
2010	1,785,785,500	139,139,665	22,495,201	40,564,090	1,668,322	1,989,652,778	1.91
2009	1,563,586,200	136,139,100	21,760,395	35,383,007	983,329	1,757,852,031	1.89
2008	963,769,900	142,842,648	18,341,320	19,440,651	667,460	1,145,061,979	1.87
2007	817,689,900	122,697,893	14,444,109	23,007,051	589,037	978,427,990	1.68

**Notes:** Property is assessed at full market value. Properties are reassessed once every four years.

(1) Per \$100 of assessed value.

TABLE 6

## TOWN OF CULPEPER, VIRGINIA

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Overlapping Rates Culpeper County		Total Direct Tax Rate
				Real Estate	Personal Property	Real Estate	Personal Property	
2016	0.11	1.00	0.80	0.11	1.00	0.73	3.50	1.91
2015	0.11	1.00	0.80	0.11	1.00	0.73	3.50	1.91
2014	0.13	1.00	0.80	0.13	1.00	0.83	3.50	1.93
2013	0.13	1.00	0.80	0.11	1.00	0.83	3.50	1.93
2012	0.13	1.00	0.80	0.11	1.00	0.74	3.50	1.93
2011	0.13	1.00	0.80	0.11	1.00	0.74	3.50	1.93
2010	0.11	1.00	0.80	0.11	1.00	0.65	3.50	1.91
2009	0.09	1.00	0.80	0.09	1.00	0.61	3.50	1.89
2008	0.07	1.00	0.80	0.07	1.00	0.56	3.50	1.87
2007	0.08	0.80	0.80	0.08	0.80	0.89	3.50	1.68

**TABLE 7**

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

**June 30, 2016**

<b>Name</b>	<b>Nature of Business</b>	<b>Assessed Value</b>	<b>Percent of Real Estate Tax</b>
Culpeper Memorial Hospital, Inc.	Medical	\$26,402,600	1.87%
Society for Worldwide Interbank Transfers	Banking operations	18,291,700	1.30%
Dominion Square-Culpeper L.L.C.	Shopping center	12,956,500	0.92%
Wal-Mart Real Estate Business Properties	Retail/grocery	11,213,900	0.79%
Culpeper Marketplace Associates	Shopping center	9,620,300	0.68%
Culpeper Regency L.L.C.	Shopping center	8,417,700	0.60%
D-Marc 2007 - CD5 Montanus Drive L.L. C.	Shopping center	7,648,200	0.54%
Target Corporation	Retail/grocery	7,388,700	0.52%
Southridge/Culpeper L.P.	Shopping center	7,124,800	0.50%
Lowe's Home Centers, Inc.	Retail	7,101,700	0.50%

**June 30, 2007**

<b>Name</b>	<b>Nature of Business</b>	<b>Assessed Value</b>	<b>Percent of Real Estate Tax</b>
Society for Worldwide Interbank	Worldwide banking operation	\$15,069,600	1.56
Dominion Square – Culpeper L.L.C.	Shopping center	13,343,400	1.38
Walmart Real Estate Business Trust	Retail/grocery store	11,178,000	1.16
Culpeper Commons, L.P.	Multi-family housing	8,471,700	0.88
Medical Facilities of America, XVI	Nursing home and elderly care	6,258,000	0.65
Merillat Corporation	Cabinet manufacturer	5,779,400	0.60
Culpeper Shopping Center Joint Venture	Shopping center	5,435,100	0.56
Culpeper House LTD Partnership	Multi-family housing	5,011,800	0.52
Southridge / Culpeper, L.P.	Multi-family housing	4,904,800	0.51
Sign of the Goldfish, L.L.C.	Furniture manufacturer	4,667,100	0.48

TABLE 8

## TOWN OF CULPEPER, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2016	\$ 3,126,686	\$ 2,895,212	92.60%	\$ -	\$ 2,895,212	92.60 %
2015	3,084,091	2,884,294	93.52%	66,008	2,950,302	95.66
2014	3,053,072	2,822,444	92.45%	170,761	2,993,205	98.04
2013	2,822,635	2,718,709	96.32%	103,926	2,822,635	100.00
2012	2,723,711	2,648,044	97.22%	75,667	2,723,711	100.00
2011	2,869,395	2,834,635	98.79%	34,760	2,869,395	100.00
2010	2,823,203	2,534,180	89.76%	213,169	2,747,349	97.31
2009	2,392,938	2,282,979	95.40%	39,598	2,322,577	97.06
2008	1,807,196	1,781,320	98.57%	25,876	1,807,196	100.00
2007	1,624,710	1,567,012	96.45%	49,073	1,616,085	99.47

Source: Tax Records of the Town.

TABLE 9

## TOWN OF CULPEPER, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years

Fiscal Year	Governmental	Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	Activities								
	General	General Obligation Bonds*							
	Obligation Bonds*	Water Bonds	Wastewater Bonds	Electric Bonds	Capital Leases				
2016	\$ 16,963,068	\$ 10,042,032	\$ 18,733,482	\$ 5,309,323	\$ 81,180	\$ 51,129,085	2609.81%	\$ 2,912	
2015	17,787,190	10,688,607	18,479,818	5,509,370	150,658	52,615,643	2685.69%	2,997	
2014	18,457,598	7,394,349	19,289,433	5,852,615	212,707	51,206,702	2613.77%	2,941	
2013	15,758,484	6,764,750	20,076,104	6,114,792	67,430	48,781,560	2583.81%	2,845	
2012	12,866,875	3,037,383	20,857,910	4,245,381	109,073	41,116,622	2214.37%	2,436	
2011	12,788,716	3,439,116	21,864,156	4,482,978	-	42,574,966	2387.39%	2,555	
2010	13,097,918	3,838,241	21,900,138	4,705,832	-	43,542,129	2576.26%	2,658	
2009	7,968,892	4,029,785	22,134,345	4,929,746	-	39,062,768	2366.52%	2,790	
2008	8,263,350	4,350,660	22,326,685	5,039,291	38,180	40,018,166	2441.28%	2,958	
2007	7,065,072	4,453,548	4,155,951	1,540,470	98,327	17,313,368	1112.23%	1,345	

\* Includes bond premiums.

TABLE 10

## TOWN OF CULPEPER, VIRGINIA

RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds		
2016	\$ 47,144,999	2.55%	2,685
2015	51,275,177	3.15%	2,920
2014	49,725,178	3.11%	2,856
2013	47,381,000	3.08%	2,764
2012	39,596,000	2.96%	2,346
2011	42,574,966	2.85%	2,555
2010	43,542,129	2.19%	2,658
2009	39,062,768	2.22%	2,790
2008	40,018,166	0.47%	2,958
2007	17,313,368	0.62%	1,345

TABLE 11

## TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION  
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Debt limit	\$ 167,503,920	\$ 146,035,245	\$ 143,728,480	\$ 146,959,170	\$ 119,659,666	\$ 133,558,800	\$ 182,634,959	\$ 178,578,550	\$ 156,358,620	\$ 96,376,990
Total net debt applicable to limit	16,963,068	17,787,190	18,457,598	15,758,484	12,866,875	12,788,716	13,097,918	7,967,892	8,242,832	7,065,072
Legal debt margin	<u>\$ 150,540,852</u>	<u>\$ 128,248,055</u>	<u>\$ 125,270,882</u>	<u>\$ 131,200,686</u>	<u>\$ 106,792,791</u>	<u>\$ 120,770,084</u>	<u>\$ 169,537,041</u>	<u>\$ 170,610,658</u>	<u>\$ 148,115,788</u>	<u>\$ 89,311,918</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>10.13%</u>	<u>12.18%</u>	<u>12.84%</u>	<u>10.72%</u>	<u>10.75%</u>	<u>9.58%</u>	<u>7.17%</u>	<u>4.46%</u>	<u>5.27%</u>	<u>7.33%</u>

## Legal Debt Margin Calculation for Fiscal Year 2016

Assessed value	<u>\$ 1,675,039,198</u>
Debt limit (10% of assessed value)	\$ 167,503,920
Less debt applicable to limit:	
General obligation bonds	<u>(16,963,068)</u>
Legal debt margin	<u>\$ 150,540,852</u>

TABLE 12

## TOWN OF CULPEPER, VIRGINIA

## PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2016	\$20,144,959	\$15,740,931	\$ 4,404,028	\$ 1,853,158	\$ 1,222,552	1.43
2015	19,844,964	16,239,392	3,605,572	1,689,567	1,256,130	1.22
2014	18,653,465	16,993,104	1,660,361	1,585,474	1,187,744	0.60
2013	17,874,539	15,233,615	2,640,924	1,430,259	1,113,035	1.04
2012	17,469,397	15,532,231	1,937,166	1,372,877	1,281,466	0.73
2011	16,778,283	14,392,590	2,385,693	1,268,044	1,236,347	0.95
2010	16,140,902	12,324,520	3,816,382	859,595	1,502,738	1.62
2009	15,809,954	13,582,280	2,227,674	818,487	1,503,188	0.96
2008	15,257,033	13,149,773	2,107,260	1,018,056	904,037	1.10
2007	13,869,844	11,975,771	1,894,073	1,006,821	692,278	1.11

**Notes:** Details regarding the Town's outstanding debt can be found in the Notes to Financial Statements.  
Operating expenses do not include depreciation, interest, or amortization expenses.

TABLE 13

## TOWN OF CULPEPER, VIRGINIA

DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years

Fiscal Year Ended	Population	Personal Income	Per Capita Personal Income	Median Income	Median Age	School Enrollment	Unemployment Rate
2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2015	17,557	N/A	N/A	N/A	N/A	N/A	N/A
2014	17,411	\$ 1,959,112	\$ 39,847	N/A	39	3,935	5.50%
2013	17,145	1,887,970	38,937	\$ 53,940	33	4,610	6.10%
2012	16,881	1,856,806	38,872	61,434	32	5,700	6.50%
2011	16,662	1,783,329	37,694	71,230	32	3,247	7.30%
2010	16,379	1,690,132	36,102	63,250	32	3,682	8.00%
2009	14,003	1,650,640	35,700	62,500	38	3,036	7.40%
2008	13,527	1,639,227	35,592	61,500	38	2,811	5.10%
2007	12,868	1,556,636	34,191	65,100	35	2,445	3.20%

Source: Census Data and Town of Culpeper Planning Department.

N/A: Not available



TABLE 14

## TOWN OF CULPEPER, VIRGINIA

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

**June 30, 2016**

<b>Employer</b>	<b>Product/Service</b>	<b>Total Estimated Employees</b>	<b>Percent of Workforce</b>
Culpeper County School Board	Governmental Office	1,000+	11.9%
Culpeper Memorial Hospital	Healthcare	750	8.9%
Culpeper County Government	Governmental Office	750	8.9%
Wal-Mart	Retail / Grocery	375	4.5%
Rappahannock Rapid Services Board	Health Care and Social Assistance	375	4.5%
Town of Culpeper	Organization	180	2.1%
S.W.I.F.T., Inc.	Information	175	2.1%
Cintas Uniforms Service	Uniform Service	175	2.1%
Virginia Department of Transportation	State Government - Transportation Program	175	2.1%
Masco Builder Cabinet (Merilat)	Manufacturing	175	2.1%

**June 30, 2007**

<b>Employer</b>	<b>Product/Service</b>	<b>Total Estimated Employees</b>	<b>Percent of Workforce</b>
Culpeper County Schools	Governmental Office	1,490	N/A
Culpeper Regional Hospital	Healthcare	625	N/A
Wal-Mart	Retail / Grocery	598	N/A
Culpeper County Government	Governmental Office	505	N/A
Masco Builder Cabinet (Merilat)	Manufacturing	340	N/A

**Source:** *Planning Department, Town of Culpeper, Virginia.*

Workforce information could not be obtained for 2007.

TABLE 15

## TOWN OF CULPEPER, VIRGINIA

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

<b>Function</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
General Government									
Management services (includes Council = 4.5)	5.5	5.5	6	5	6	7	7	7	8
Finance	14	12	9	9	10	10	10	9	10
Planning	5	5	5	5	5	4	3	4	4
Building	2	0	2	2	2	1	1	1	-
Other (including Clerk, Information Technology, Engineering, Tourism, Human Resources)	20	18.5	15.5	16	17	9	11	13	11
Public Safety									
Officers	41	42	42	42	39	41	41	40	46
Civilians	12.5	8	9	8	9	8	8	5	6
Public Works									
Refuse collection	4	5	5	4	5	5	5	5	5
Streets	23	18	22	15	10	13	13	13	14
Other	6	12	4	4	6	4	5	5	4
Parks and Recreation									
Parks	5	5	8	8	6	5	7	7	7
Other	2	1.5	7	3	1	3	3	3	3
Water and Wastewater Operations	36	34	39	32	36	31	23	31	30
Electric Operations	16	17	18	19	16	17	18	17	21

Note: No information available prior to 2008.

Source: Town's payroll records.

TABLE 16

## TOWN OF CULPEPER, VIRGINIA

OPERATING INDICATORS BY FUNCTION  
Last Nine Fiscal Years

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public Safety									
Traffic violations	2,013	2,075	2,246	2,755	2,180	3,471	4,086	4,149	5,242
Parking violations	1,838	1,342	1,226	1,876	1,439	1,643	2,530	3,265	3,391
Arrests	1,266	1,330	1,346	1,389	1,386	1,320	499	-	-
Total crimes	1,742	1,680	1,542	1,871	1,783	1,823	1,845	1,654	494
Public Works									
Street paving – crack sealant in pounds	-	693	136	4,740	20,442	30,000	30,000	30,000	-
Street paving – milling in sq. yds.	-	14,691	10,384	1,011	21,755	9,575	33,347	17,870	-
Street paving – bituminous concrete in tons	-	1,814	1,858	2,884	5,495	4,504	4,839	6,645	-
Recycling – cardboard in pounds	59,240	57,640	69,540	73,020	81,420	89,320	90,460	74,000	83,000
Recycling – newspaper in pounds	-	-	-	-	-	-	-	18,500	28,390
Water Operations									
Number of service connections	7,093	6,930	6,931	6,651	6,579	6,507	6,466	6,439	6,371
Average daily consumption in gallons	2,011,007	2,070,638	1,900,000	1,700,000	1,499,109	1,760,000	1,700,000	2,000,000	2,200,000
Maximum daily capacity of plant in gallons	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Wastewater Operations									
Number of service connections	6,823	6,667	6,662	6,382	6,315	6,238	6,190	6,184	6,069
Average daily consumption in gallons	3,160,000	2,880,000	3,400,000	3,700,000	1,371,855	2,620,000	3,000,000	2,400,000	2,770,000
Maximum daily capacity of plant in gallons	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	4,000,000	4,000,000
Electric Operations									
Number of service connections	5,357	5,323	5,214	5,087	5,099	5,063	4,987	4,921	4,885
Average monthly consumption in kilowatt-hours	1,540	1,574	1,615	1,628	1,611	1,673	1,466	1,592	N/A
Highest system peak demand in megawatts	27.58	27.47	26.37	25.56	25.66	25.72	25.70	25.22	28.00

Note: No information available prior to 2008.

Source: Internal data from various departments.

TABLE 17

## TOWN OF CULPEPER, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION  
Last Nine Fiscal Years

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public Safety									
Stations	1	1	1	1	1	1	1	1	1
Number of patrol units	44	36	36	33	33	33	33	29	32
Public Works									
Streets (miles)	66	66	66	66	62	64	62	62	58
Street & yard lights	1,054	1,054	1,054	1,109	1,116	1,133	1,133	1,175	1,175
Traffic signals	19	19	20	20	19	15	15	14	14
Water Operations									
Miles of water main	104	102.6	101.35	100	99	99	99	99	98
Number of fire hydrants	725	713	740	737	678	678	678	678	638
Wastewater Operations									
Miles of sanitary sewer	96.8	95.5	95.5	96	95	95	95	95	95
Miles of storm sewer	30.5	30.5	30.5	30	20	20	20	20	20
Number of treatment plants	1	1	1	1	1	1	1	1	1
Number of pumping stations	11	10	9	9	9	9	9	9	9
Electric Operations									
Miles of overhead lines (miles)	27.66	27.66	27.66	27.66	27.66	27.66	N/A	N/A	N/A
Miles of underground lines (miles)	44.52	44.52	44.12	42.87	41.78	41.78	N/A	N/A	N/A
Number of sub-stations (115 kV)	1	1	1	1	1	1	1	1	1
Number of delivery points (34.5 kV)	1	1	1	0	0	0	1	2	2

Note: No information available prior to 2008. Certain electric operation information not available prior to 2011.

Source: Internal data from various departments.

## **COMPLIANCE SECTION**

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## Town of Culpeper, Virginia

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

<u>Federal Grantor/Pass - Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Agriculture: Pass Through Payments: Watershed rehabilitation program	10.916	68-33A7-14-003 and 68-33A7-14-003	\$ 856,567
Total Department of Agriculture			856,567
Department of Housing and Urban Development: Direct Payments: Neighborhood Stabilization Grant	14.228	N/A	11,980
Department of Justice: Direct Payments: Drug enforcement program	12.357	N/A	7,991
Internet Crimes Against Children	16.543	N/A	5,981
Pass Through Payments: Justice Assistance Act Grant	16.738	15-N1027LO14	4,300
			18,272
Total Expenditures of Federal Awards			\$ 886,819

**Notes to Schedule of Expenditures of Federal Awards**

## NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the Town of Culpeper, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

## NOTE 2 - DE MINIMIS INDIRECT COST RATE:

The entity did not elect to use the 10% de minimis indirect cost rate.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Specifications for Audits of Counties, Cities, and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Culpeper, Virginia (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 1, 2016.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs at Item 2015-001, that we consider to be a material weakness and a certain other deficiency in internal control, described in the accompanying schedule of findings and questioned costs at Item 2010-001, that we consider to be a significant deficiency.**

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

## Town of Culpeper's Response to Findings

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

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 1, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Culpeper, Virginia's (the "Town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Town's major federal programs for the year ended June 30, 2016. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the Town, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 1, 2016

## **TOWN OF CULPEPER, VIRGINIA**

### **SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2016**

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

#### **STATE COMPLIANCE MATTERS**

##### *Code of Virginia*

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

##### State Agency Requirements

Urban Highway Maintenance

#### **FEDERAL COMPLIANCE MATTERS**

##### Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal program selected for testing.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness and one significant deficiency** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **two audit findings relating to the major program**.
7. The program tested as major was:

Name of Program	CFDA #
Watershed Rehabilitation Program	10.916

8. The threshold for distinguishing Type A and B programs was **\$750,000**.
9. The Town was not determined to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2010-001: Segregation of Duties (Significant Deficiency)**

***Condition:***

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

***Recommendation:***

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

***Management's Response:***

Management concurs with this recommendation.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

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

**2015- 001: Financial Reporting Controls (Material Weakness)**

***Condition:***

As more fully discussed in the letter on internal control matters, we noted a control deficiency over the financial reporting process of the Town in relation to nonrecurring and unusual items.

***Recommendation:***

The Town should implement steps to improve its financial reporting process including communication with attorneys and other departments for transactions with potential financial statement implications.

***Management's Response:***

Management concurs with this recommendation.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

**2016- 001: Funds Received in Advance**

***Condition:***

Noted the Town was advanced funds for payment to vendors. As a result of guidance provided by the state agency that was not in compliance with federal requirements, the Town did not expend these funds within three days of receipt.

***Criteria:***

31 CFR Part 205 requires that advances be expended within three days of receipt.

***Cause:***

The Town was unaware of this compliance requirement.

***Effect:***

The Town may be penalized with less assistance provided or advances disallowed in the future.

***Context:***

Two advances were tested and neither was expended within three days of receipt.

***Recommendation:***

The Town should delay requests for advances of grant funds until they are prepared to make payments to vendors.

***View of Responsible Officials and Planned Corrective Actions:***

Management concurs with this recommendation and has scheduled additional training for staff related to federal programs management.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT  
(Continued)**

**2016- 002: Vendor Verification**

***Condition:***

It was noted that the Town did not review the excluded parties list prior to awarding contracts to vendors. Despite not reviewing the list, upon reviewing the list during testing, we noted that all contracts were awarded to vendors that are not suspended or debarred.

***Criteria:***

A verification check for suspended or debarred contractors for all contracts equal to or exceeding \$25,000 is required.

***Cause:***

The Town was unaware of this compliance requirement.

***Effect:***

The Town may be penalized with less assistance provided.

***Context:***

This occurred on one of one contracts tested.

***Recommendation:***

The Town should implement procedures to check the *Excluded Parties List System* during the proposal process.

***View of Responsible Officials and Planned Corrective Actions:***

Management concurs with this recommendation and has scheduled additional training for staff related to federal programs management.

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

**2016- 003: Statement of Economic Interest Filing**

***Condition:***

Noted that the Town received statements of economic interest after the December 15<sup>th</sup> and June 15<sup>th</sup> filing deadlines. This occurred for eleven of the eighty four statements required to be filed.

***Recommendation:***

The Town should continue to follow-up with employees, Council members, and Board members to remind them of the filing deadline.

***Management's Response:***

Management concurs with this recommendation.

**TOWN OF CULPEPER, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

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

**2016- 004: Statement of Economic Interest Reporting**

***Condition:***

As noted above, the Town received statements of economic interest after the filing deadlines. The Town did not report late filers to the Commonwealth Attorney's Office so that the \$250 fine could be implemented.

***Recommendation:***

The Town should begin to report late filings to the Commonwealth Attorney as required by State Code.

***Management's Response:***

Management concurs with this recommendation and will follow-up with the Town Attorney.

**2016- 005: Highway Maintenance Disbursements**

***Condition:***

The Town submitted maintenance expenditures for two streets that were not on VDOT's listing of eligible streets.

***Recommendation:***

The Town should review the listing of eligible streets prior to beginning work. The Town can also appeal to VDOT to have the streets included on the eligible streets listing in the future.

***Management's Response:***

Management concurs with this recommendation and will follow-up with the Town Attorney.

**2014- 001: Budget Overages**

***Condition:***

It was noted that the Town exceeded its final budget in some categories. It is a violation of Virginia State Code to spend amounts in excess of appropriations.

***Recommendation:***

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

***Management's Response:***

Management concurs with this recommendation.