



November 15, 2023

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

In connection with our audit of the financial statements of the Town of Culpeper, Virginia (Town) for the year ended June 30, 2023, the following item was noted as a control deficiency.

Grant Receivables and Revenue

During the course of our audit, we noted grant related expenditures related to a Department of Transportation grant did not agree to the corresponding grant revenue recorded by the Town. The Town had properly calculated to the total amount due from the Department of Transportation but failed to report as revenue in the current fiscal year. Grant revenue for this specific project had been understated and reported as deferred revenue. For reimbursement-based grants, revenue should be recognized and recorded in the year in which the qualifying expenditures are incurred and reported. This allows the Town to properly match grant revenues with related expenditures. We recommend the Town at year-end review all grant related expenditures and revenue to ensure these amounts agree and are reflected in the correct year.

We have the following comments and suggestions for your consideration.

Highway Planning and Construction Grant – Wage Rate Requirement

During our audit procedures related to this federal program, we noted the individual responsible for monitoring compliance requirements related to payroll was not reviewing payroll related to the Road Diet project to ensure compliance with the Wage Rate Requirements per 29 CFR sections 5.5 and 5.6; the A-102 Common Rule (section 36(i)(5)); OMB Circular A-110 (2 CFR Part 215, Appendix A, Contract Provisions); and 2 CFR Part 176, Subpart C; and 2 CFR section 200.326 as required. However, as part of managing this project, the Town elected to hire a consultant to assist with monitoring various compliance requirements. Per an inquiry with the consultant, it was noted the consultant has been actively reviewing payroll reports to ensure the Town's compliance with the wage rate requirement. However, we believe the individual at the Town responsible for overseeing the grant should also review these reports to ensure compliance and provide additional oversight of the work performed by the consultant.

Water and Wastewater Funds

It has come to our attention the Water and Wastewater Funds of the Town have reported operating losses in recent years. The income and losses from operating activities are summarized in the table below for previous three fiscal years.

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2023	\$ (1,403,597)	\$ (619,826)
2022	(1,334,454)	(50,649)
2021	(1,573,698)	(507,224)

Operating activities of the two funds have resulted in operating losses. This is an indication the revenue generated from operating activities is not sufficient to cover operating expenses. While it has been brought to our attention the Town has recently had third party consultants perform a rate study for the Town, we recommend the Town consider reviewing its current rates charged for services being charged to customers to ensure each fund can cover its operating expenses including depreciation expense. While depreciation expense is not a current cash outlay of the either fund, operating revenues should still be sufficient to cover this expense. If the funds are able to generate revenue to cover all operating costs, this will allow the Town to build the necessary reserves to fund expenses related to upgrading assets in the near future as older assets become fully depreciated and have to be replaced by the Town. This will also allow the Town to build reserves that may prevent the Town from incurring any additional debt to fund expansion of services and upgrades to aging infrastructure.

New GASB Pronouncements

At June 30, 2023, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Town. The statements which might impact the Town are as follows:

GASB Statement No. 99, Omnibus 2022

This Statement provides guidance to enhance comparability in accounting and financial reporting for derivative instruments, leases, financial guarantees, and a wide range of other accounting and financial reporting issues that have been identified during the implementation and application of certain GASB statements. Certain requirements defined in this Statement have already been implemented by the Town.

The requirements related to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, will be effective for the Town beginning with its year ending June 30, 2024.

GASB Statement No. 100, Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature.

The requirements related to GASB Statement 100 will be effective for the Town beginning with its year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*

This Statement provides guidance to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements related to GASB Statement 101 will be effective for the Town beginning with its year ending June 30, 2025.

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

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2023 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

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