

TOWN OF CULPEPER, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

TREASURER'S OFFICE

TOWN OF CULPEPER, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting.....	vi
Directory of Principal Officials.....	vii
Organizational Chart	viii

FINANCIAL SECTION

Independent Auditor's Report.....	1
Management's Discussion and Analysis	4

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements	
Exhibit 1	Statement of Net Position 6
Exhibit 2	Statement of Activities..... 7
Fund Financial Statements	
Exhibit 3	Balance Sheet – Governmental Funds..... 8
Exhibit 4	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 9
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds..... 10
Exhibit 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 11
Exhibit 7	Statement of Net Position – Proprietary Funds..... 12
Exhibit 8	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds..... 13
Exhibit 9	Statement of Cash Flows – Proprietary Funds..... 14
Exhibit 10	Statement of Fiduciary Net Position – Agency Fund 15
Notes to Financial Statements..... 16	

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 11	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund..... 64
Exhibit 12	Schedule of Changes in Net Pension Liability and Related Ratios 66
Exhibit 13	Schedule of Pension Contributions 67
Exhibit 14	Schedule of Changes in Net OPEB Liability and Related Ratios 68
Exhibit 15	Schedule of Employer's Share of Net OPEB Liability..... 69
Exhibit 16	Schedule of OPEB Contributions..... 70
Notes to Required Supplementary Information..... 71	

TOWN OF CULPEPER, VIRGINIA

TABLE OF CONTENTS (Continued)

OTHER SUPPLEMENTARY INFORMATION

	Page
Combining Fund Statements and Schedules – Fiduciary Fund	
Exhibit A-1 Statement of Changes in Assets and Liabilities – Agency Fund – Parking Authority	74
Discretely Presented Component Units – Industrial Development Authority	
Exhibit A-2 Balance Sheet – Governmental Fund.....	75
Exhibit A-3 Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.....	76

STATISTICAL SECTION

Table 1	Net Position by Component	78
Table 2	Changes in Net Position by Component.....	79
Table 3	Fund Balances – Governmental Funds	80
Table 4	Changes in Fund Balances – Governmental Funds.....	81
Table 5	Assessed Value and Actual Value of Taxable Property	82
Table 6	Direct and Overlapping Property Tax Rates.....	82
Table 7	Principal Property Taxpayers.....	83
Table 8	Property Tax Levies and Collections	84
Table 9	Ratios of Outstanding Debt by Type	85
Table 10	Ratios of General Bonded Debt Outstanding	85
Table 11	Legal Debt Margin Information	86
Table 12	Pledged Revenue Coverage	87
Table 13	Demographic and Economic Statistics	88
Table 14	Principal Employers	89
Table 15	Full-Time Equivalent Town Government Employees by Function.....	90
Table 16	Operating Indicators by Function	91
Table 17	Capital Asset Statistics by Function	92

COMPLIANCE SECTION

Schedule 1	Schedule of Expenditures of Federal Awards	94
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 <i>Government Auditing Standards</i>		95
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance		97
Summary of Compliance Matters.....		99
Schedule of Findings and Questioned Costs.....		100
Summary Schedule of Prior Year Audit Findings		102

INTRODUCTORY SECTION



TOWN OF CULPEPER

TREASURER'S OFFICE

400 S. Main St., Suite 109 • Culpeper, VA 22701
(540) 829-8220 • FAX (540) 829-8239
www.culpeperva.gov

November 20, 2018

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, 2018. 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's management. 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.

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 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 in excess of 8,000 customers.

ECONOMIC CONDITION AND OUTLOOK

Population growth continues within the Town, and after a brief decline in the growth rate, it has resumed at a rate that exceeds the State average, as evidenced by continued residential development in 2017 and 2018. The Town is positioned in the D.C./Northern Virginia growth ring with a forecasted 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, and has taken economic development initiatives to promote prospective commercial development properties and incentivize residential apartment development in the downtown business district. Recent growth and development shows that new opportunities exist for businesses that have located in or are considering building in the area. The unemployment rate for Culpeper is low at 3.0%, which is below both the Virginia Statewide rate (3.3%) and the national rate (4.2%) as of June 2018.

With these conditions, the overall outlook for the Town is strong. The Town has a strong tourism presence, and is able to rely on related taxes (i.e., lodging and meals) as sources of revenues to support the Governmental Fund budget. The Town continues to face challenges addressing the demands from a growing population, including improvements to capital infrastructure, utilities and quality of life services, such as public safety, transportation and recreational facilities. Several projects were completed in 2018, with more ongoing into 2019 to meet these needs, and are discussed in this narrative.

MAJOR INITIATIVES IN FY18

FY18 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 Culpeper 20/20 Strategic Vision Plan was created from a 2010 project to incorporate public input towards the development of a plan for Town development and improvements. The plan examined multiple areas of focus, and is updated annually as progress is made, and needs are re-assessed. The plan was last updated in 2017, and is currently being updated in 2018. The current area of focus is on the recently adopted Downtown Masterplan, and bringing this vision to completion. A complete copy of the Culpeper 20/20 Strategic Vision Plan can be found on the Town website.
- Dam Rehabilitation and Improvements – 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 because of changes in Virginia dam safety regulations and as a requirement of the Town's conditional operating permits for both dams. Construction has been underway since 2017 and will be completed in the spring of 2019.
- Groundwater Development – Construction to connect three additional potable water wells into the water system was completed in FY18. These wells, along with three others previously completed, 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 continually being updated which will tie into the Automatic Meter Reading System for outage reporting. New energy-efficient LED street lighting fixtures were installed throughout Town, with the final phase of the LED lighting project to be completed in FY19.

MAJOR INITIATIVES IN FY18 (Continued)

- Rockwater Park – In FY18, Rockwater Park opened with 32 acres of green space, a picnic pavilion, restrooms, parking and one mile of walking trails. Future park improvements to be completed during FY19 include a disc golf course, splash park and fitness course, along with an additional trail to connect the park to a nearby hospital complex and residential community.
- Elevated Water Tank – A 400,000 elevated water tank was constructed on the south end of Town, bringing needed improvements to fire flow and water service in this area. Funding in the amount of \$1,500,000 (of a total project cost of approximately \$1,850,000) was provided by a developer and an existing senior housing residential complex.
- ERP implementation – The Town continues working on a multi-year project to implement a new enterprise resource planning (ERP) system to replace its outdated legacy financial and business management software. The project began in FY16, and to date the Town has implemented the following modules; General Ledger, Accounts Payable, Permitting, Business License, Cashiering and Human Resources/Payroll. The final phase to implement the Taxes and Utility Billing modules has begun, and is anticipated for final completion in 2019.

TOWN AWARDS AND ACHIEVEMENTS

- Directors Award – The Culpeper Water Treatment Plant maintained the Partnership for Safe Water's Directors Award for 2017, for the staff's outstanding achievement in maintaining Phase III status, and their commitment in protecting the public and community health. The Plant received its Award in February 2018. The Partnership continues to make its optimization resources and benefits available to a growing number of utilities including water distribution systems, groundwater treatment plants, and wastewater treatment facilities.
- Lake Pelham Adventures – Due to the overwhelming success of Lake Pelham Adventures, the Town received a Bronze 2018 Governor's Environmental Excellence Award for the public access to waterways category. This public/private partnership was well used during the 2017 season with approximately 7,000 rentals.
- Trolley Tour Campaign – The Town received the 2017 VIRGO Award for the category of Niche Tourism – Cultural/Heritage from the Virginia Association of Destination Marketing Organizations for the Trolley Tour Campaign. The Town Tourism department, in coordination with local historical, recreation, agricultural and civic organizations, organizes trolley tour events taking visitors to local attractions using a regional transport Trolley bus.
- Virginia Association of Chief of Police (VACP) Chiefs Challenge Award – The Culpeper Police Department earned 2nd Place in the VACAP Chief Challenge Award in FY18 at the annual VACAP Conference. These awards are given to agencies that exemplify outstanding traffic safety initiatives in their respective communities. The agency must prove through traffic and pedestrian enforcement, motor vehicle crash investigation, and traffic enforcement campaigns that motorist and pedestrian safety is paramount in our community. In addition, the Culpeper Police Department was recognized for its commitment and use of technology, being awarded a Special Award in Technology in relation to traffic and pedestrian safety.

TOWN AWARDS AND ACHIEVEMENTS (Continued)

- *Certificate of Achievement for Excellence in Financial Reporting* - The Government Finance 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 fourteenth consecutive year for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2017. 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. 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.

LONG –TERM FINANCIAL PLANNING

Capital Improvements Plan

The Town updates its Capital Improvements Plan (CIP) on an annual basis, which is approved by the Planning Commission and Town Council. The CIP is developed with the intention to preserve, maintain and improve the Town's stock of public facilities, such as roads, bridges, parks and utilities. The CIP provides a mechanism for estimating future capital requirements, planning and scheduling projects, developing revenue policy for future improvements, budgeting high-priority projects, and informing the public of anticipated capital improvements. While the CIP provides the basis for the next fiscal year capital budget, it also serves as the framework for capital spending over the subsequent five-year period.

Enterprise Fund Planning

Additionally, the Town maintains a model for enterprise fund finances projecting fifteen years into the future. This model includes anticipated future capital needs for growth, and replacement of existing facilities, as well as projected operating revenues and normal operating costs, debt service and cash flows.

Bond Credit Rating

The Town continues to maintain a credit rating of Aa2 from Moody's as well as an AA credit rating from Standards & Poor's.

ACCOUNTING SYSTEM, INTERNAL CONTROLS AND BUDGETARY CONTROLS

The Town Finance Division/Treasurer's Office maintains the Town financial policies and operations, and provides support to Town departments and Town staff in all aspects of Finance. The staff is committed to achieving a high standard of service while managing the Town's finances in accordance with established accounting standards, and Town Code and policies.

Staffing

The Town Director of Finance/Town Treasurer reports directly to the Town Manager. The Finance/Treasurer's department handles tax billing and collections, utility billing and collections, payroll, accounts payable and financial analysis and reporting.

Internal Controls

Internal controls are a critical component of the Finance/Treasurer's department, and all segments of operations Town-wide are continually under review. 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 controls should not exceed the benefits likely to be derived, and (b) the evaluation of costs and benefits requires estimates and judgments by management. Necessary improvements are implemented to maintain our fiduciary responsibility as stewards of the Town's assets, while also streamlining processes so we can provide a responsive level of service to the Town citizens and employees.

ACCOUNTING SYSTEM, INTERNAL CONTROLS AND BUDGETARY CONTROLS (Continued)

Budgetary Controls

The Town prepares an annual budget for operating expenditures, and as previously referenced, a capital budget based on the CIP. The annual budget is prepared by management and then reviewed and approved by Town Council before the start of each fiscal year. The Town reviews and controls spending both at the organization level and the department level. All spending is subject to Town Manager and Finance Director/Town Treasurer approval at designated thresholds, and expenditures are reported monthly to Town Council for their review and approval. Further, Town Directors are responsible for budget control within their areas of responsibility. Controlling expenditures at multiple levels strengthens overall budgetary and spending controls.

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.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report is partly outsourced, with contributions provided by the dedicated service of the Finance Division/Treasurer's Office staff. I sincerely appreciate the efforts of staff towards the preparation of this report. I also wish to thank the Town Council, Town Manager, and Town-wide department staff for their support and continued interest creating a strong financial basis for the Town and its citizens. This report is available to the public via the Town's website located at www.culpeperva.gov.

Respectfully submitted,



Howard A. Kartel, CPA
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, 2017

Christopher P. Morill

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

TOWN ATTORNEY
Martin R. Crim

DEPARTMENT HEADS

TREASURER/DIRECTOR OF FINANCE
Howard Kartel

DIRECTOR OF PUBLIC SERVICES
Jim Hoy

CHIEF OF POLICE
Chris Jenkins

DIRECTOR OF LIGHT AND POWER
Michael Stover

DIRECTOR OF INFORMATION TECHNOLOGY AND GIS
Tonya Estes

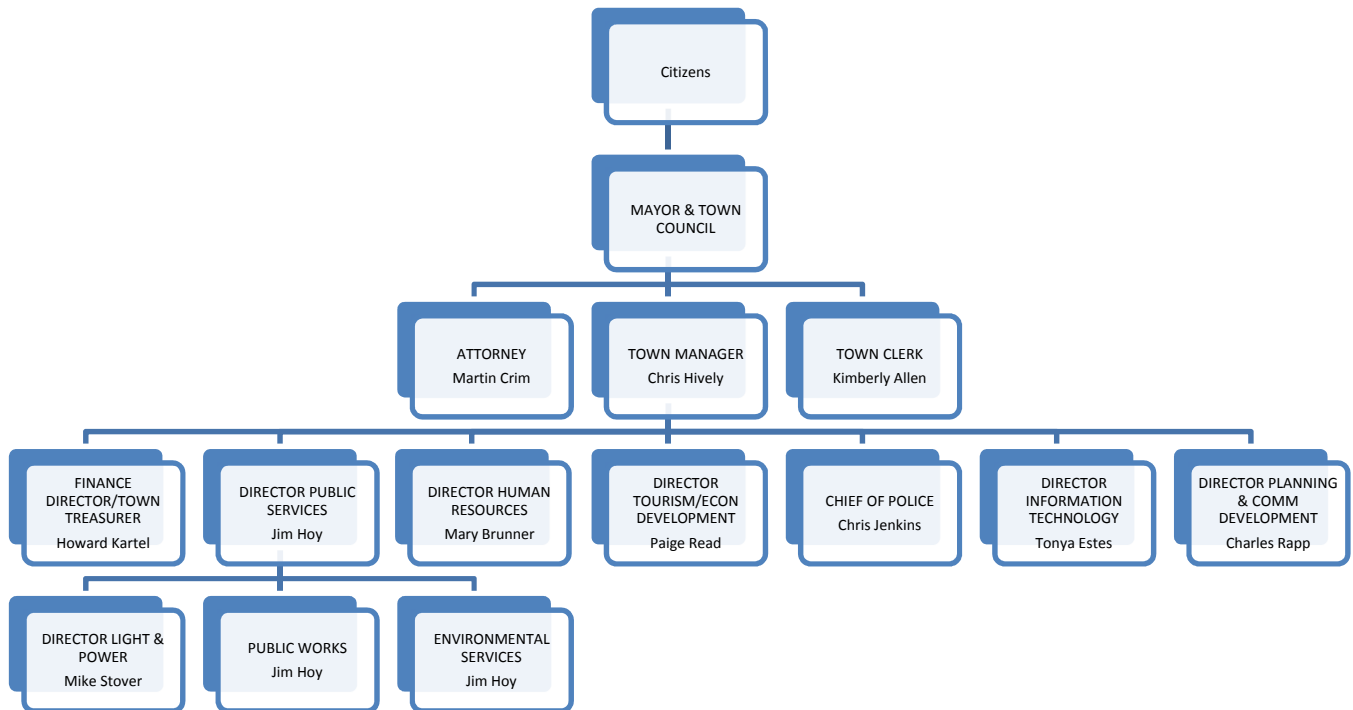
DIRECTOR OF PLANNING AND COMMUNITY DEVELOPMENT
Charles Rapp

DIRECTOR OF TOURISM AND ECONOMIC DEVELOPMENT
Paige Read

DIRECTOR OF HUMAN RESOURCES
Mary Brunner

TOWN OF CULPEPER, VIRGINIA

ORGANIZATIONAL CHART



FINANCIAL SECTION

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, 2018, 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, 2018, 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.

Change in Accounting Principle

As described in Note 18 to the financial statements, in 2018 the Town adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 20, 2018 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 20, 2018

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 years ended June 30, 2018 and 2017. 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 for all funds at the close of the fiscal year ended June 30, 2018 by \$114,800,032 (net position) (Exhibits 1 and 2), an increase of \$13,709,279, or 13.6%, from the prior year. Of the current year amount, \$26,140,327 is unrestricted and may be used to meet the Town's ongoing obligations to its citizens and creditors.
- At the end of the fiscal year ended June 30, 2018, the Town's governmental funds reported an ending fund balance of \$15,637,389 (Exhibit 3), an increase of \$2,394,727, or 18.1%, from the prior year (Exhibit 5). The unassigned fund balance went up by \$3,892,586, or 57.1% from the prior year to \$10,711,025. This amount is available for spending at the government's discretion.
- The Town incurred expenditures of approximately \$13.7 million for ongoing and completed Water Fund capital projects to increase water supply capacity by connecting new wells to the distribution system, improve water service and fire flow by constructing a new elevated water tank, and making rehabilitation improvements to the dams at Lake Pelham and Mountain Run Lake.

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, deferred outflows, liabilities and deferred inflows, with the net difference 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 three 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 a major fund and for the cemetery perpetual care fund and cemetery permanent fund, which are considered non-major funds.

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 (see Exhibit 11 in the accompanying financial statements).

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.

Government-Wide Financial Analysis

	<u>The Town's Net Position</u>					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 17,019,404	\$ 15,902,380	\$ 25,609,688	\$ 26,588,447	\$ 42,629,092	\$ 42,490,827
Capital assets	54,381,300	54,627,716	75,673,685	63,591,899	130,054,985	118,219,615
Total assets	71,400,704	70,530,096	101,283,373	90,180,346	172,684,077	160,710,442
Deferred outflows – Pensions	755,725	1,274,772	288,812	499,416	1,044,537	1,774,188
Deferred outflows - OPEB	60,681	-	24,187	-	84,868	-
Deferred amount on refunding	332,261	367,324	943,697	1,023,621	1,275,958	1,390,945
Total deferred outflows of resources	1,148,667	1,642,096	1,256,696	1,523,037	2,405,363	3,165,133
Long-term liabilities	20,979,555	22,234,335	32,483,520	34,566,249	53,463,075	56,800,584
Current liabilities	1,073,954	2,379,587	4,829,005	3,519,395	5,902,959	5,898,992
Total liabilities	22,053,509	24,613,932	37,312,525	38,085,644	59,366,034	62,699,576
Deferred inflows - Pensions	605,843	61,250	231,531	23,996	837,374	85,246
Deferred inflows - OPEB	62,025	-	23,975	-	86,000	-
Total deferred inflows of resources	667,868	61,250	255,506	23,996	923,374	85,246
Net position						
Net investment in capital assets	40,487,615	41,387,460	46,875,816	32,641,915	87,363,431	74,029,375
Restricted	1,296,274	1,811,790	-	-	1,296,274	1,811,790
Unrestricted	8,044,105	4,297,760	18,096,222	20,951,828	26,140,327	25,249,588
Total net position	49,827,994	47,497,010	64,972,038	53,593,743	114,800,032	101,090,753
Adjustment for adoption of GASB No. 75 (see Note 18)		(1,363,440)	-	(555,984)	-	(1,919,424)
Total net position (2017 restated)	\$ 49,827,994	\$ 46,133,570	\$ 64,972,038	\$ 53,037,759	\$ 114,800,032	\$ 99,171,329

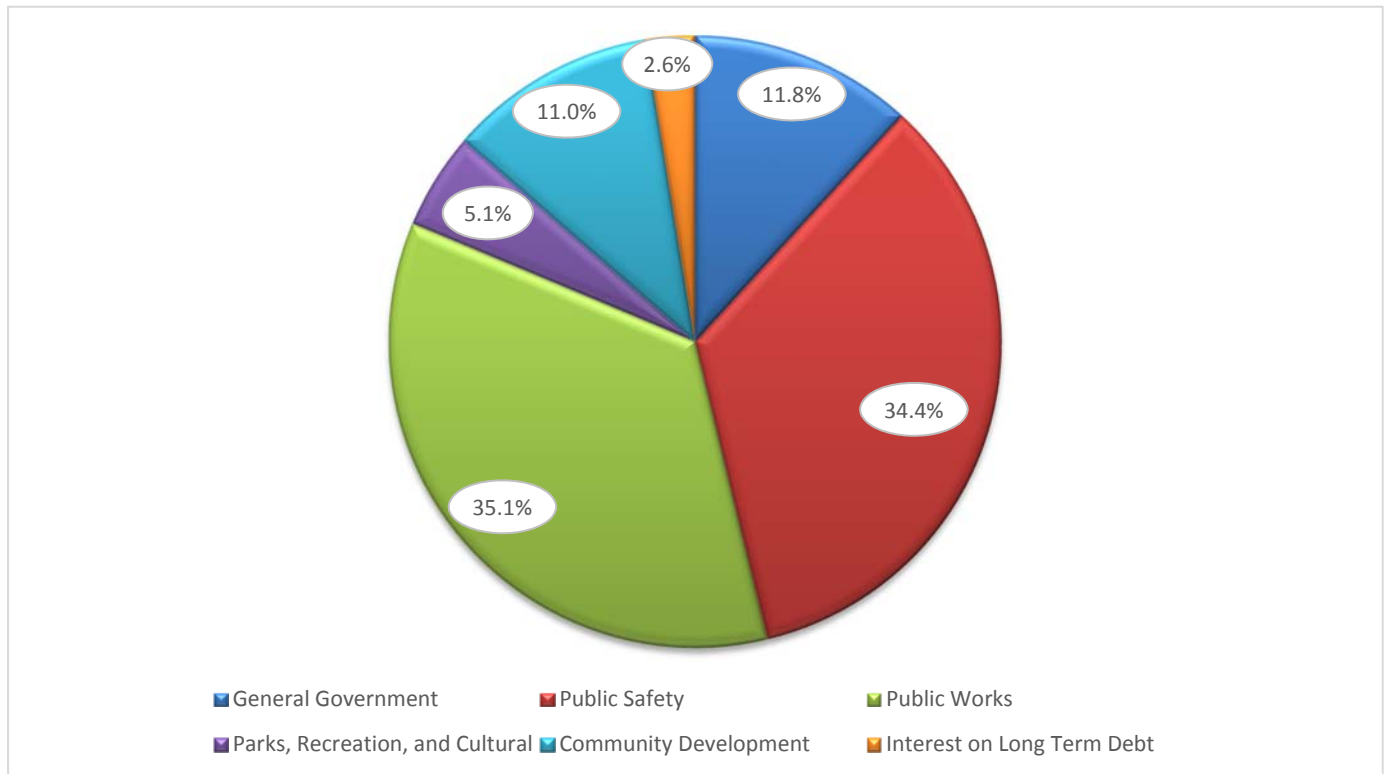
At the end of the current fiscal year, the Town is able to report positive balances in all categories of net position. A discussion of FY18 activities and results are on the subsequent pages of this MD&A section.

A significant portion of the Town's net position, \$87,363,431 (76.1%) reflects net investment in capital assets, which provide services to its citizens; consequently, these assets are not available for future spending. Of the remaining components of net position, \$26,140,327 (22.8%) reflects unrestricted net position, which may be used towards the Town's ongoing obligations to its citizens and towards debt service obligations to its creditors. Restricted net position, \$1,296,274 (1.1%) are amounts legally reserved for specific purposes, such as the cemetery permanent and perpetual care funds, unspent grant proceeds and unspent police asset seizure funds.

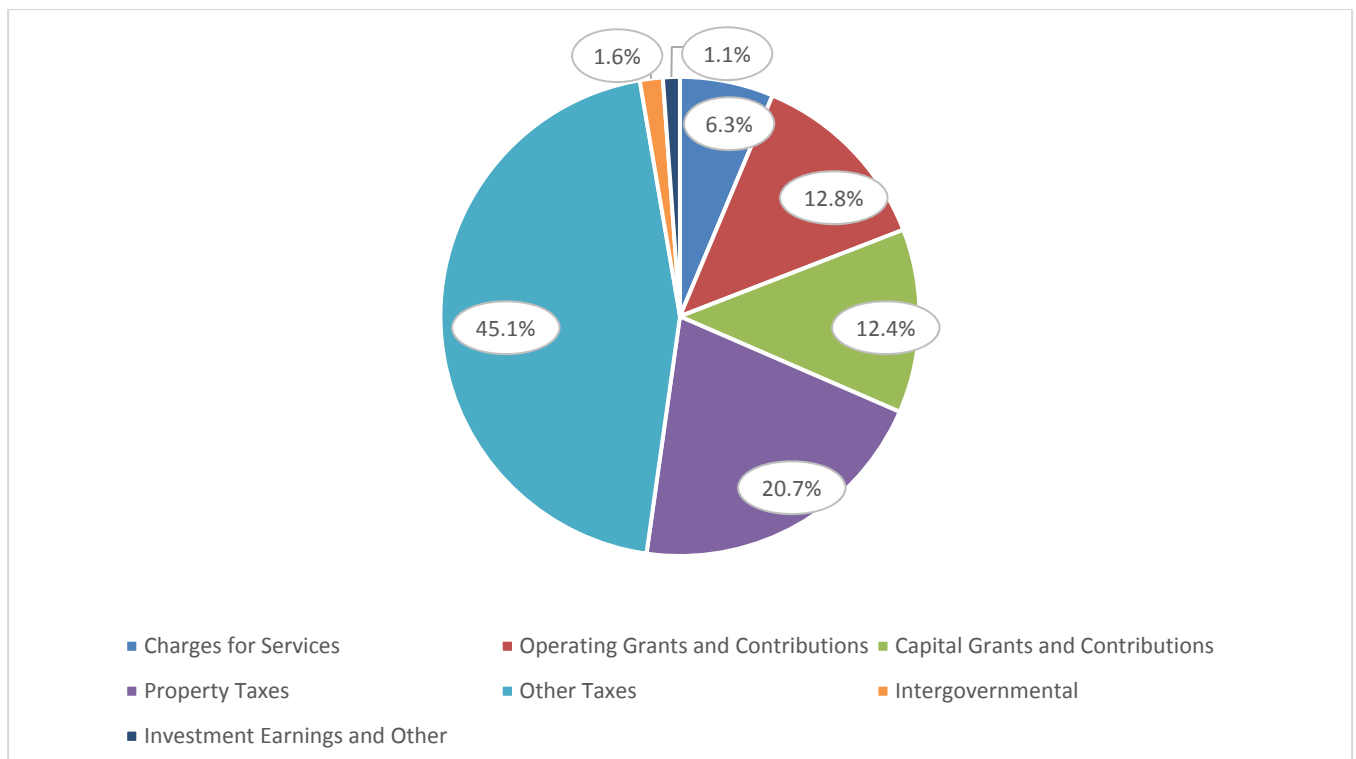
Government-Wide Financial Analysis (Continued)

	<u>The Town's Changes in Net Position</u>					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	\$ 1,162,488	\$ 1,056,271	\$23,001,953	\$21,935,287	\$ 24,164,441	\$22,991,558
Operating grants and contributions	2,355,582	2,377,321	15,597	29,542	2,371,179	2,406,863
Capital grants and contributions	2,285,924	365,253	10,846,873	994,049	13,132,797	1,359,302
General revenues						
Property taxes	3,814,435	3,334,858	-	-	3,334,858	3,334,858
Other taxes	8,299,761	7,920,396	-	-	7,920,396	7,920,396
Intergovernmental revenue, unrestricted	285,596	230,933	-	-	230,933	230,933
Investment earnings, unrestricted	117,859	45,754	242,858	127,950	360,717	173,704
Other	92,164	50,079		13,212	92,164	63,291
Total revenues	<u>18,413,809</u>	<u>15,380,865</u>	<u>34,107,281</u>	<u>23,100,040</u>	<u>52,521,090</u>	<u>38,480,905</u>
Expenses						
General government	1,813,136	2,118,903	-	-	1,813,136	2,118,903
Public safety	5,279,682	5,392,894	-	-	5,279,682	5,392,894
Public works	5,378,213	5,381,340	-	-	5,378,213	5,381,340
Parks, recreation, and cultural	777,456	727,557	-	-	777,456	727,557
Community development	1,688,724	1,443,117	-	-	1,688,724	1,443,117
Interest on long-term debt	390,139	323,497	-	-	390,139	323,497
Water	-	-	5,256,395	4,074,774	5,256,395	4,074,774
Wastewater	-	-	5,055,057	5,345,589	5,055,057	5,345,589
Electric	-	-	11,253,585	10,939,680	11,253,585	10,939,680
Total expenses	<u>15,327,350</u>	<u>15,387,308</u>	<u>21,565,037</u>	<u>20,360,043</u>	<u>36,892,387</u>	<u>35,747,351</u>
Excess (deficiency) before transfers	3,086,459	(6,443)	12,542,244	2,739,997	15,628,703	2,733,554
Transfers	<u>607,965</u>	<u>611,435</u>	<u>(607,965)</u>	<u>(611,435)</u>	<u>-</u>	<u>-</u>
Change in net position	3,694,424	604,992	11,934,279	2,128,562	15,628,703	2,733,554
Net position, 2018 Beg restated (see Note 18)	<u>46,133,570</u>	<u>46,892,018</u>	<u>53,037,759</u>	<u>51,465,181</u>	<u>99,171,329</u>	<u>98,357,199</u>
Net position – June 30	<u>\$49,827,994</u>	<u>\$47,497,010</u>	<u>\$64,972,038</u>	<u>\$53,593,743</u>	<u>\$ 114,800,032</u>	<u>\$101,090,75</u>

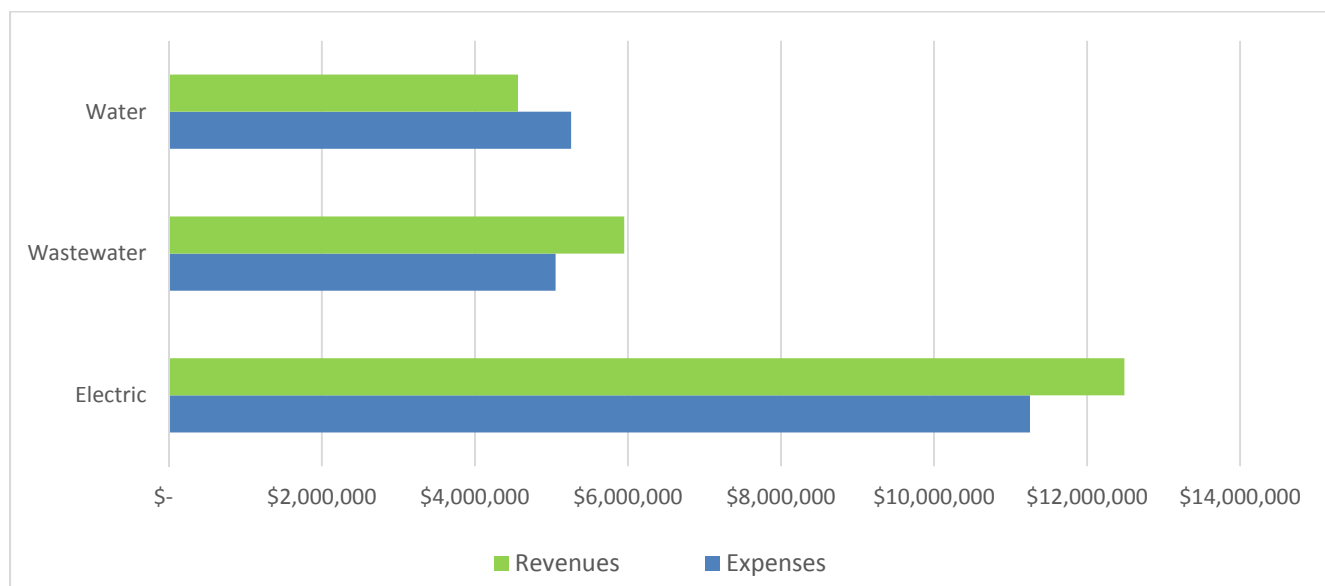
Expenses – Governmental Activities, year ended June 30, 2018



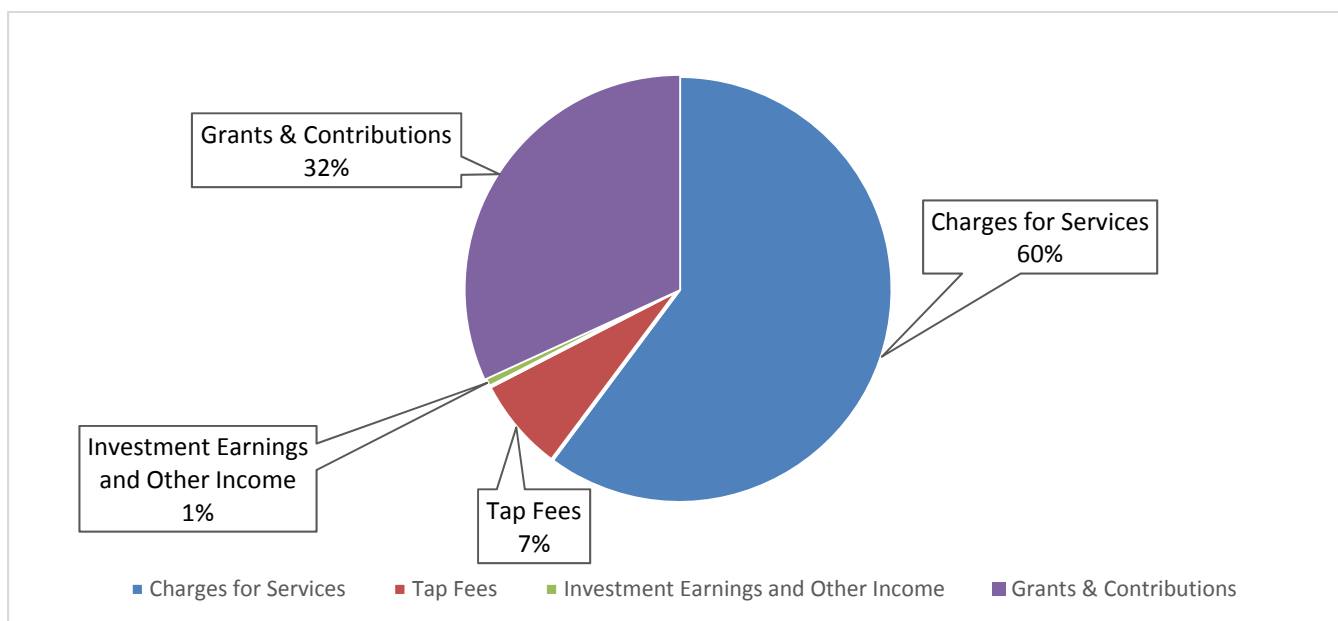
Revenues by Source – Governmental Activities, year ended June 30, 2018



Expenses and Program Revenues – Business-Type Activities, year ended June 30, 2018



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.

At June 30, 2018, the Town's governmental funds (Exhibit 5) reported an ending fund balance of \$15,637,389, an increase of \$2,394,727 in comparison with the end of the prior year. Approximately 68% of this total amount, or \$10,711,025, constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. The remainder of fund balance is *non-spendable, restricted, or assigned* to indicate that it is not available for new spending because it has already been designated for other uses.

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 and total fund balance at June 30, 2018 represents 63.6% and 93.0% of total governmental fund expenditures, respectively.

The Town's general fund balance increased \$2,330,948 in FY2018, primarily due to the following: higher tax revenues than budgeted, higher investment earnings due to rising interest rates and a focus towards longer term investments, and lower spending than budgeted for public works maintenance performed during the year.

Proprietary Funds – The Town's proprietary funds provide detailed information to demonstrate that fees charged for services are sufficient to cover the expenses to provide those services.

Unrestricted net position of the water fund (Exhibit 7) at June 30, 2018 was \$8,717,075; the wastewater fund equaled \$5,521,039; and the electric fund amounted to \$3,858,108. The total increase in net position for the year ended June 30, 2018 was \$11,934,279 (Exhibit 8), primarily due to tap fee revenues and contributed water and sewer assets from developers.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended budget was a total increase of \$4,538,466. Highlights of amendments, primarily due to amounts carried forward to FY18 from FY17 are as follows:

- Approximately \$440,000 for various department operating expenditures relating to projects not completed before the end of the prior fiscal year;
- Approximately \$600,000 for new capital projects related to land acquisition, IT server replacements and road improvements approved by Town Council during FY18.
- Approximately \$2.0 million for the Route 229 Widening project, pending the final VDOT close-out in FY18;
- Approximately \$1.4 million for various other incomplete prior year capital projects.

Differences between the amended budget and actual results amounted to a positive variance of approximately \$1.8 million (Exhibit 11). Highlights are:

- Various General Fund capital projects budgeted were not completed during FY18, creating a positive budget variance, with approximately \$5.5 million carried forward to FY19;
- The Public Works departments had a positive budget variance of approximately \$960,000 and Public Safety had a positive budget variance of approximately \$220,000, while other departments also show positive budget variances ranging up to approximately \$70,000. Approximately \$710,000 of these amounts represented unfinished projects and was carried forward to FY19.

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, 2018, amounts to \$130,054,985 (net of accumulated depreciation) (Note 6). This includes land; construction in progress; buildings and system improvements; and machinery, equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year was 10% (a 0.5% decrease for governmental activities, offset by a 19% increase for business-type activities).

<u>The Town’s Capital Assets</u>						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,308,646	\$ 4,308,646	\$ 1,601,469	\$ 2,669,500	\$ 5,910,115	\$ 6,978,146
Buildings and improvements	26,072,166	23,992,441	102,627,577	102,846,404	128,699,743	126,838,845
Machinery and equipment	8,712,841	8,546,465	10,978,977	10,343,763	19,691,818	18,890,228
Infrastructure	62,424,343	61,228,030	8,848,943	833,519	71,273,286	62,061,549
Construction in progress	67,554	1,219,731	13,085,108	8,124,149	13,152,662	9,343,880
Less accumulated depreciation	(47,204,250)	(44,667,597)	(61,468,389)	(61,225,436)	(108,672,639)	(105,893,033)
Total	\$ 54,381,300	\$ 54,627,716	\$ 75,673,685	\$ 63,591,899	\$ 130,054,985	\$ 118,219,615

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

- Ongoing rehabilitation improvements to the Lake Pelham and Mountain Ram dams, with the construction started in FY18 and scheduled for completion in the spring of 2019, at an estimated total cost of \$16.5 million. The Town has secured Federal and State grant funding towards these projects of approximately \$14.5 million. Approximately \$7.7 million of project costs were incurred during FY18.
- Developer contributions of road and utility improvements were accepted for various residential development projects completed, at a total value of approximately \$4.6 million. Additionally, developer funding of \$1.5 million (of a total project costs of approximately \$1,850,000) was received towards the construction of a new elevated water tank on the south end of Town, bringing needed improvements to fire flow and water service in this area.
- The Town completed projects to add groundwater supply via the connection of potable water wells to the water distribution system. Approximately \$1.7 million of expenditures were incurred in FY18 to complete the project.

Additional information on the Town’s capital assets can be found in Note 6 of the accompanying financial statements.

Long-Term Debt – At the end of the fiscal year ended June 30, 2018, the Town had total debt outstanding of \$44,102,641. This amount is comprised of general obligation (GO) debt backed by the full faith and credit of the Town government.

<u>The Town’s Outstanding Debt</u>						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 13,085,389	\$ 14,351,169	\$ 27,606,611	\$ 29,547,831	\$ 40,692,000	\$ 43,899,000
Other obligations payable	-	-	-	44,009	-	44,009
Bond premium	1,140,557	1,237,344	2,270,084	2,419,429	3,410,641	3,656,773
Total	\$ 14,225,946	\$ 15,588,513	\$ 29,876,695	\$ 32,011,269	\$ 44,102,641	\$ 47,599,782

Capital Asset and Debt Administration (continued)

The Town's total net debt decreased by \$3,497,141 or 7.3% during the fiscal year ended June 30, 2018 as a result of scheduled debt service payments.

The Town has maintained a rating of AA from Standard & Poor's and Aa2 from Moody's for its outstanding general obligation debt. Moody's credit overview issued in September 2018 states the Town has a robust financial position, a healthy wealth and income profile, a sizable tax base and mid-ranged debt and pension liabilities.

Additional information on the Town's long-term debt can be found in Note 8 of the accompanying financial statements.

Adoption of New GASB Pronouncement

In 2018, the Town adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The overall effect of this new standard is to reflect the Town's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability, which has now been recorded, was only disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Town record a net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 18, 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.

Economic Factors and Next Year's Budget

- Overall tax receipts have shown increases or remained steady year over year. FY19 budgeted tax revenues are approx. 6% higher than FY18. Town Council approved reductions in 2 categories of BPOL rates, offset by an increase in the cigarette tax rate for FY19.
- The rate of building and development activity over the past year has been strong, with increases in both residential and commercial development in Town. Town Council, effective July 2018, approved a Downtown Development Area Apartment Incentive Program. This program reduces the Tap Privilege Assessment Fee for a temporary 3-year period for residential apartments in the downtown area to encourage development.
- Town Council approved utility rate increases of 2% for FY19 for the Water, Wastewater and Electric funds.

Requests for Information

This CAFR is designed to provide an overview of the Town's financial activity and standing, for all those with an interest in such matters. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Howard A. Kartel, CPA
Finance Director/Town Treasurer
Town of Culpeper
400 South Main Street, Suite 109
Culpeper, Virginia 22701

BASIC FINANCIAL STATEMENTS

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2018

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority
ASSETS				
Cash and cash equivalents (Note 2)	\$ 8,066,703	\$ 8,409,686	\$ 16,476,389	\$ 77,525
Investments (Note 2)	5,865,315	11,203,918	17,069,233	-
Receivables, net (Note 3)	931,131	2,566,112	3,497,243	-
Notes receivable (Note 3)	-	-	-	954,523
Due from other governmental units (Note 5)	734,309	2,111,642	2,845,951	-
Inventories	-	1,083,413	1,083,413	-
Cash and cash equivalents, restricted (Note 2)	1,296,274	135,129	1,431,403	55,755
Prepays	125,672	99,788	225,460	-
Capital assets: (Note 6)				
Nondepreciable	4,376,200	14,686,577	19,062,777	-
Depreciable, net	50,005,100	60,987,108	110,992,208	-
Total assets	71,400,704	101,283,373	172,684,077	1,087,803
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions (Note 12)	755,725	288,812	1,044,537	-
Deferred outflows related to other postemployment benefits (Note 12)	60,681	24,187	84,868	-
Deferred amount on refunding	332,261	943,697	1,275,958	-
Total deferred outflows of resources	1,148,667	1,256,696	2,405,363	-
LIABILITIES				
Accounts payable and accrued liabilities	195,397	3,327,552	3,522,949	4,732
Accrued payroll and related liabilities	400,961	97,058	498,019	-
Accrued interest payable	189,716	408,476	598,192	24,921
Bonds and security deposits	287,880	976,940	1,264,820	-
Unearned revenue (Note 9)	-	-	-	7,798
Noncurrent liabilities:				
Due within one year (Note 8)	1,944,718	1,834,962	3,779,680	14,912
Due in more than one year (Note 8)	12,986,123	28,308,800	41,294,923	954,522
Net pension liability (Note 12)	4,337,410	1,657,604	5,995,014	-
Net other postemployment benefit liability (Note 12)	1,711,304	701,133	2,412,437	-
Total liabilities	22,053,509	37,312,525	59,366,034	1,006,885
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions (Note 12)	605,843	231,531	837,374	-
Deferred inflows related to other postemployment benefits (Note 12)	62,025	23,975	86,000	-
Total deferred inflows of resources	667,868	255,506	923,374	-
NET POSITION				
Net investment in capital assets	40,487,615	46,875,816	87,363,431	-
Restricted:				
Unspent grant proceeds and asset seizure funds	291,723	-	291,723	-
Public safety	47,401	-	47,401	-
Nonexpendable - cemetery perpetual care	847,322	-	847,322	-
Cemetery perpetual care	109,828	-	109,828	-
Unrestricted	8,044,105	18,096,222	26,140,327	80,918
Total net position	\$ 49,827,994	\$ 64,972,038	\$ 114,800,032	\$ 80,918

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

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	\$ 1,813,136	\$ 117,936	\$ -	\$ -	\$ (1,695,200)	\$ -	\$ (1,695,200)	\$ -
Public safety	5,279,682	188,458	350,773	-	(4,740,451)	-	(4,740,451)	-
Public works	5,378,213	366,920	1,994,809	2,285,924	(730,560)	-	(730,560)	-
Parks, recreation, and cultural	777,456	461,456	-	-	(316,000)	-	(316,000)	-
Community development	1,688,724	27,718	10,000	-	(1,651,006)	-	(1,651,006)	-
Interest on long-term debt	390,139	-	-	-	(390,139)	-	(390,139)	-
Total governmental activities	15,327,350	1,162,488	2,355,582	2,285,924	(9,523,356)	-	(9,523,356)	-
Business-type activities:								
Water	5,256,395	4,562,888	-	10,070,310	-	9,376,803	9,376,803	
Wastewater	5,055,057	5,952,387	15,597	776,563	-	1,689,490	1,689,490	
Electric	11,253,585	12,486,678	-	-	-	1,233,093	1,233,093	
Total business-type activities	21,565,037	23,001,953	15,597	10,846,873	-	12,299,386	12,299,386	
Total primary government	\$ 36,892,387	\$ 24,164,441	\$ 2,371,179	\$ 13,132,797	(9,523,356)	12,299,386	2,776,030	
Component Units:								
Industrial Development Authority	\$ 237,323	\$ -	\$ 236,246	\$ -	-	-	-	(1,077)
Total component unit	\$ 237,323	\$ -	\$ 236,246	\$ -	-	-	-	(1,077)
General revenues:								
Property taxes					3,814,435	-	3,814,435	-
Meals tax					4,257,578	-	4,257,578	-
Sales tax					1,641,902	-	1,641,902	-
Business license tax					1,115,874	-	1,115,874	-
Bank stock tax					431,595	-	431,595	-
Cigarette tax					165,818	-	165,818	-
Hotel and motel room tax					498,669	-	498,669	-
Other local taxes					188,325	-	188,325	-
Intergovernmental revenue, unrestricted					285,596	-	285,596	-
Unrestricted investment earnings					117,859	242,858	360,717	-
Other					92,164	-	92,164	-
Transfers (Note 4)					607,965	(607,965)	-	-
Total general revenues and transfers					13,217,780	(365,107)	12,852,673	-
Change in net position					3,694,424	11,934,279	15,628,703	(1,077)
NET POSITION AT JULY 1, 2017 AS RESTATED (Note 18)					46,133,570	53,037,759	99,171,329	81,995
NET POSITION AT JUNE 30, 2018					\$ 49,827,994	\$ 64,972,038	\$ 114,800,032	\$ 80,918

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2018**

		Non-Major Funds		
	General Fund	Cemetery Perpetual Care Fund	Cemetery Permanent Fund	Total
ASSETS				
Cash and cash equivalents	\$ 8,066,703	\$ -	\$ -	\$ 8,066,703
Investments	5,865,315	-	-	5,865,315
Receivables, net (Note 3)	931,131	-	-	931,131
Due from other governmental units (Note 5)	734,309	-	-	734,309
Due from other funds	-	-	-	-
Cash and cash equivalents, restricted	339,124	109,828	847,322	1,296,274
Prepays	125,672	-	-	125,672
Total assets	<u>\$ 16,062,254</u>	<u>\$ 109,828</u>	<u>\$ 847,322</u>	<u>\$ 17,019,404</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 195,397	\$ -	\$ -	\$ 195,397
Accrued payroll and related liabilities	400,961	-	-	400,961
Bonds and security deposits	287,880	-	-	287,880
Total liabilities	<u>884,238</u>	<u>-</u>	<u>-</u>	<u>884,238</u>
Deferred inflows of resources:				
Unavailable revenue (Note 9)	497,777	-	-	497,777
Total deferred inflows of resources	<u>497,777</u>	<u>-</u>	<u>-</u>	<u>497,777</u>
Fund balances: (Note 13)				
Nonspendable	125,672	-	847,322	972,994
Restricted	339,124	109,828	-	448,952
Assigned	3,504,418	-	-	3,504,418
Unassigned	10,711,025	-	-	10,711,025
Total fund balances	<u>14,680,239</u>	<u>109,828</u>	<u>847,322</u>	<u>15,637,389</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,062,254</u>	<u>\$ 109,828</u>	<u>\$ 847,322</u>	<u>\$ 17,019,404</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

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

June 30, 2018

Total Fund Balances – Governmental Funds	\$ 15,637,389
---	----------------------

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	\$ 4,376,200	
Depreciable, net	<u>50,005,100</u>	
		54,381,300

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 \$1,472,818 and accumulated amortization of \$332,261.	(1,140,557)	
Deferred loss on refunding total \$467,804 and accumulated amortization of \$135,543.	<u>332,261</u>	
		(808,296)

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

497,777

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

Deferred outflows related to:

Pension	755,725	
Other postemployment benefits	60,681	

Deferred inflows related to:

Pension	(605,843)	
Other postemployment benefits	(62,025)	

Net pension liability	(4,337,410)	
-----------------------	-------------	--

Net other postemployment benefit liability	<u>(1,711,304)</u>	
		(5,900,176)

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

General obligation bonds	(13,085,389)	
Accrued interest payable	(189,716)	
Compensated absences	<u>(704,895)</u>	
		<u>(13,980,000)</u>

Total Net Position – Governmental Activities	<u>\$ 49,827,994</u>
---	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

		Non-Major Funds		
	General Fund	Cemetery Perpetual Care Fund	Cemetery Permanent Fund	Total
REVENUES				
General property taxes	\$ 3,695,916	\$ -	\$ -	\$ 3,695,916
Other local taxes	8,326,712	-	-	8,326,712
Permits, privilege fees, and regulatory licenses	339,691	-	-	339,691
Fines and forfeitures	113,085	-	-	113,085
Revenues from use of money and property	353,354	10,889	-	364,243
Charges for services	325,112	-	52,890	378,002
Other	251,708	-	-	251,708
Recovered costs	2,332,603	-	-	2,332,603
Intergovernmental	2,807,406	-	-	2,807,406
Total revenues	<u>18,545,587</u>	<u>10,889</u>	<u>52,890</u>	<u>18,609,366</u>
EXPENDITURES				
Current:				
General government administration	3,814,621	-	-	3,814,621
Public safety	5,020,076	-	-	5,020,076
Public works	3,184,690	-	-	3,184,690
Parks, recreation, and cultural	769,988	-	-	769,988
Community development	1,570,997	-	-	1,570,997
Capital projects	738,983	-	-	738,983
Debt service:				
Principal retirement	1,265,780	-	-	1,265,780
Interest and fiscal charges	457,469	-	-	457,469
Total expenditures	<u>16,822,604</u>	<u>-</u>	<u>-</u>	<u>16,822,604</u>
Excess of revenues over expenditures	<u>1,722,983</u>	<u>10,889</u>	<u>52,890</u>	<u>1,786,762</u>
OTHER FINANCING SOURCES				
Transfers in (Note 4)	607,965	-	-	607,965
Total other financing sources	<u>607,965</u>	<u>-</u>	<u>-</u>	<u>607,965</u>
Net change in fund balances	2,330,948	10,889	52,890	2,394,727
FUND BALANCES AT JULY 1, 2017	<u>12,349,291</u>	<u>98,939</u>	<u>794,432</u>	<u>13,242,662</u>
FUND BALANCES AT JUNE 30, 2018	<u>\$ 14,680,239</u>	<u>\$ 109,828</u>	<u>\$ 847,322</u>	<u>\$ 15,637,389</u>

The Notes to Financial Statements are an integral part of this statement.

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, 2018

Net Change in Fund Balances – Governmental Funds \$ 2,394,727

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 \$2,695,482 exceeded capital outlays of \$2,487,641, including contributed capital of \$2,064,713, in the current period. (207,841)

The sale of capitals results in removing the cost and accumulated depreciation, resulting in a gain or loss on the sale in the statement of activities. (38,575)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 72,333

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	\$ 1,265,780	
Changes in bond premiums	96,787	
Changes in loss on refunding	(35,063)	
		1,327,504

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	755,725	
Pension expense	(560,332)	
		195,393

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

Employer other postemployment benefit contributions	60,681	
Other postemployment benefit expense	(111,447)	
		(50,766)

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

Change in note receivable	(50,000)	
Change in compensated absences	46,042	
Change in accrued interest payable	5,607	
		1,649

Change in Net Position – Governmental Activities \$ 3,694,424

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2018

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,148,391	\$ 3,452,718	\$ 2,808,577	\$ 8,409,686
Receivables, net (Note 3)	436,567	550,660	1,578,885	2,566,112
Due from other governmental units (Note 5)	1,640,234	15,597	455,811	2,111,642
Interfund advances receivable (Note 4)	55,995	-	-	55,995
Investments	7,713,357	2,493,258	997,303	11,203,918
Inventories	196,058	103,356	783,999	1,083,413
Prepaid expenses	25,251	39,839	34,698	99,788
Total current assets	12,215,853	6,655,428	6,659,273	25,530,554
Noncurrent assets:				
Cash and cash equivalents, restricted	-	-	135,129	135,129
Interfund advances receivable (Note 4)	113,674	-	-	113,674
Capital assets: (Note 6)				
Nondepreciable	14,350,300	226,424	109,853	14,686,577
Depreciable, net	18,943,406	34,767,685	7,276,017	60,987,108
Total noncurrent assets	33,407,380	34,994,109	7,520,999	75,922,488
Total assets	45,623,233	41,649,537	14,180,272	101,453,042
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions (Note 12)	97,731	80,620	110,461	288,812
Deferred outflows related to other postemployment benefits (Note 12)	8,106	7,771	8,310	24,187
Deferred amount on refunding	5,222	825,252	113,223	943,697
Total deferred outflows of resources	111,059	913,643	231,994	1,256,696
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	2,455,313	63,080	809,159	3,327,552
Accrued payroll and related liabilities	31,806	32,580	32,672	97,058
Accrued interest payable	97,982	249,192	61,302	408,476
Customer security deposits	188,745	-	788,195	976,940
Current portion of other long-term debt (Note 8)	489,356	780,025	351,928	1,621,309
Interfund advances payable (Note 4)	-	-	55,995	55,995
Compensated absences (Note 8)	50,566	77,275	85,812	213,653
Total current liabilities	3,313,768	1,202,152	2,185,063	6,700,983
Noncurrent liabilities:				
Other long-term debt (Note 8)	8,173,960	15,904,899	4,176,527	28,255,386
Interfund advances payable (Note 4)	-	-	113,674	113,674
Compensated absences (Note 8)	12,641	19,319	21,454	53,414
Net pension liability (Note 12)	560,918	462,708	633,978	1,657,604
Net other postemployment benefit liability (Note 12)	233,891	247,158	220,084	701,133
Total noncurrent liabilities	8,981,410	16,634,084	5,165,717	30,781,211
Total liabilities	12,295,178	17,836,236	7,350,780	37,482,194
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions (Note 12)	78,349	64,629	88,553	231,531
Deferred inflows related to other postemployment benefits (Note 12)	8,078	6,839	9,058	23,975
Total deferred inflows of resources	86,427	71,468	97,611	255,506
NET POSITION				
Net investment in capital assets	24,635,612	19,134,437	3,105,767	46,875,816
Unrestricted	8,717,075	5,521,039	3,858,108	18,096,222
Total net position	\$ 33,352,687	\$ 24,655,476	\$ 6,963,875	\$ 64,972,038

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2018**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 3,516,644	\$ 4,427,621	\$ 12,420,837	\$ 20,365,102
Penalties	34,016	34,016	35,049	103,081
Other	31,228	-	30,792	62,020
Total operating revenues	3,581,888	4,461,637	12,486,678	20,530,203
OPERATING EXPENSES				
Water treatment	2,146,155	-	-	2,146,155
Wastewater collection	-	309,551	-	309,551
Wastewater treatment	-	2,880,402	-	2,880,402
Transmission and distribution	955,687	-	1,455,129	2,410,816
Electric generation (Note 14)	-	-	7,211,006	7,211,006
Administration	-	-	1,102,252	1,102,252
Other	-	7,829	73,033	80,862
Depreciation	985,247	1,319,985	983,895	3,289,127
Total operating expenses	4,087,089	4,517,767	10,825,315	19,430,171
Operating income (loss)	(505,201)	(56,130)	1,661,363	1,100,032
NONOPERATING REVENUES (EXPENSES)				
Interest income	148,112	57,002	37,744	242,858
Interest expense	(258,265)	(537,290)	(134,965)	(930,520)
Loss on disposal of capital assets	(911,041)	-	(293,305)	(1,204,346)
Tap fees	981,000	1,490,750	-	2,471,750
Intergovernmental revenues	-	15,597	-	15,597
Net nonoperating revenue (expenses)	(40,194)	1,026,059	(390,526)	595,339
Income before capital contributions and transfers	(545,395)	969,929	1,270,837	1,695,371
CAPITAL CONTRIBUTIONS	10,070,310	776,563	-	10,846,873
TRANSFERS OUT (Note 4)	(105,495)	(134,610)	(367,860)	(607,965)
Change in net position	9,419,420	1,611,882	902,977	11,934,279
NET POSITION AT JULY 1, 2017 AS RESTATED (Note 18)	23,933,267	23,043,594	6,060,898	53,037,759
NET POSITION AT JUNE 30, 2018	<u>\$ 33,352,687</u>	<u>\$ 24,655,476</u>	<u>\$ 6,963,875</u>	<u>\$ 64,972,038</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 4,029,831	\$ 5,162,695	\$ 12,285,817	\$ 21,478,343
Payments to suppliers	(1,295,182)	(2,023,622)	(8,494,110)	(11,812,914)
Payments to employees	(1,324,861)	(1,347,398)	(1,424,323)	(4,096,582)
Net cash provided by operating activities	1,409,788	1,791,675	2,367,384	5,568,847
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers	(105,495)	(134,610)	(367,860)	(607,965)
Advances collected from other funds	55,440	-	-	55,440
Intergovernmental revenues	-	45,139	-	45,139
Net cash provided by (used in) noncapital financing activities	(50,055)	(89,471)	(367,860)	(507,386)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(4,325,255)	(112,833)	(179,688)	(4,617,776)
Proceeds from disposal of capital assets	(18,059)	-	(2,212)	(20,271)
Principal paid on capital debt	(717,215)	(855,163)	(412,851)	(1,985,229)
Advances to other funds for capital items	-	-	(55,440)	(55,440)
Tap fees collected	981,000	1,490,750	-	2,471,750
Interest paid on capital debt	(307,302)	(637,449)	(157,568)	(1,102,319)
Intergovernmental projects	(1,635,017)	(15,597)	-	(1,650,614)
Net cash used in capital and related financing activities	(6,021,848)	(130,292)	(807,759)	(6,959,899)
INVESTING ACTIVITIES				
Purchases of investments	(7,713,357)	(2,493,258)	(997,303)	(11,203,918)
Interest received	148,112	57,002	37,744	242,858
Net cash used in investing activities	(7,565,245)	(2,436,256)	(959,559)	(10,961,060)
Net decrease in cash and cash equivalents	(12,227,360)	(864,344)	232,206	(12,859,498)
CASH AND CASH EQUIVALENTS				
Beginning at July 1, 2017	14,375,751	4,317,062	2,711,500	21,404,313
Ending at June 30, 2018	\$ 2,148,391	\$ 3,452,718	\$ 2,943,706	\$ 8,544,815
RECONCILIATION TO EXHIBIT 7				
Cash and cash equivalents	\$ 2,148,391	\$ 3,452,718	\$ 2,808,577	\$ 8,409,686
Cash and cash equivalents, restricted	-	-	135,129	135,129
	\$ 2,148,391	\$ 3,452,718	\$ 2,943,706	\$ 8,544,815
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (505,201)	\$ (56,130)	\$ 1,661,363	\$ 1,100,032
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	985,247	1,319,985	983,895	3,289,127
Other postemployment benefit expense net of employer contributions	7,360	9,571	5,389	22,320
Pension expense net of employer contributions	65,001	(150,587)	(31,182)	(116,768)
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	466,213	701,058	(170,477)	996,794
Due from other governmental units	-	-	(16,530)	(16,530)
Inventories	53,946	(5,565)	(2,943)	45,438
Prepaid expenses	(25,251)	(39,839)	(16,361)	(81,451)
(Decrease) increase in:				
Accounts payable and accrued liabilities	380,532	3,599	(17,810)	366,321
Accrued payroll and related liabilities	(890)	(7,450)	(6,657)	(14,997)
Due to other funds	-	-	-	-
Customer security deposits	(18,270)	-	(30,384)	(48,654)
Compensated absences	1,101	17,033	9,081	27,215
Net cash provided by operating activities	\$ 1,409,788	\$ 1,791,675	\$ 2,367,384	\$ 5,568,847
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 1,869,936	\$ -	\$ 339	\$ 1,870,275
Developer capital contributions	\$ 1,721,973	\$ 776,563	\$ -	\$ 2,498,536

The Notes to Financial Statements are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
 AGENCY FUND
 June 30, 2018

**Parking
 Authority**

ASSETS

Receivables, net	\$ 3,088
Future amounts to be collected to liquidate liabilities	<u>68,094</u>
Total assets	<u><u>\$ 71,182</u></u>

LIABILITIES

Accounts payable	\$ 683
Due to fiscal agent	<u>70,499</u>
Total liabilities	<u><u>\$ 71,182</u></u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Culpeper, Virginia (the “Town”) was established in 1870. 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, Town Clerk, 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 unit.

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 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.

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

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 funds:

The *perpetual care cemetery fund* is a non-major 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.

The *cemetery fund* is a non-major permanent fund used to account for the cemetery corpus, which is included in the nonspendable portion of fund balance.

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. Nonoperating revenues include tap fees which is the sale of water and sewer capacity. At purchase, the tap fee attaches to the property. Town policy allows for refunding this fee within twenty four months as long as the connection has not been made. Revenue is recognized upon approval of the tap connection.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 subsequent 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 subsequent year budget is legally enacted through passage of an appropriations resolution. The appropriations resolution 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 of a minimum of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Capital assets received in a service concession arrangement are reported at acquisition value.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as the projects are constructed.

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

Buildings and improvements	20-99 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.

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 the following items that qualify for reporting as deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportion. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

I. Deferred Outflows/Inflows of Resources (Continued)

- Deferred loss 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.
- Unavailable revenue occurs only under the modified accrual basis of accounting and 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.

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 of \$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.

K. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Town's Plans and the additions to/deductions from the Town's 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 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.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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 Town 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.

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 operating expenses and an optimum balance of two hundred percent of operating expenses. Further, when calculating reserves for the Electric Fund, purchased power costs shall be included at a balance of 30% of annual expense, as this is primarily a pass-through based on electric utility customer consumption.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

P. Estimates

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

Q. 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, Water, Wastewater, and Electric fund encumbrances are \$538,568, \$8,016,798, \$120,087, and \$78,423, respectively as of June 30, 2018.

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.

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 issued by domestic banks, banker’s acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, the Virginia State Non-Arbitrage Program (SNAP) or other authorized arbitrage investment management programs, the State Treasurer’s Local Government Investment Pool (the Virginia LGIP), and the Virginia Investment Pool (VIP).

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 carrying 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 in accordance with GASB No. 79).

VML/VACo’s pooled investment program (VIP) is used by local governments to invest assets they expect to hold longer than one year. Participants are invested in high-quality corporate and government securities with an average duration of one to two years. The VIP maintains a stable net asset value of \$1 per share in accordance with GASB No. 79.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments

Investments (Continued)

Fair Value:

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and are described as follow.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

		<u>Level 1</u>
Debt Securities		
U.S. Treasury and Agency securities	\$	9,505,755
Commercial paper		<u>1,995,533</u>
	\$	<u>11,501,288</u>

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

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Portfolio</u>
Primary Government:			
Demand deposits	\$ 3,151,114	NA	9.00 %
Certificate of deposit	5,567,945	NA	15.92
US Treasury and Agency	9,505,755	AA+	27.18
Commercial paper	1,995,533	A-1+	5.70
SNAP	135,129	AAAm	0.39
LGIP	6,242,449	AAAm	17.85
VIP	<u>8,379,100</u>	AAAm	<u>23.96</u>
Primary government investments	<u>\$ 34,977,025</u>		<u>100.00 %</u>
Primary Government reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 16,476,389		
Investments	17,069,233		
Cash and cash equivalents, restricted	<u>1,431,403</u>		
Total deposits and investments	<u>\$ 34,977,025</u>		
Component Unit – IDA:			
Demand deposits	<u>\$ 133,280</u>	NA	100.00 %
Component Unit – IDA reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 77,525		
Cash and cash equivalents, restricted	<u>55,755</u>		
	<u>\$ 133,280</u>		

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments

Investments (Continued)

Credit Risk:

As required by Code of Virginia or Town policy, commercial paper shall have a rating of “P-1” or higher by Moody’s and “A-1” or higher by Standard & Poor’s issued by United States corporations, 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 can only be purchased if the yield is greater than the United States Treasury obligations or Federal Agency issues and must have a rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Certificates of deposit at state and federally chartered banks and savings and loan associations are limited to the amount of the Federal Deposit Insurance Corporation or collateralized in accordance with the Virginia Security for Public Deposits Act Section 2.2-4400 et. Seq. of the Code.

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.

Concentration of Credit Risk:

In accordance with Town policy, no more than 15% of the overall portfolio may be invested in the securities of a single issuer, except for the securities of the U.S. Government, or a maximum of 25% with any individual counter party in an external investment pool recognized under the Code. Investments in deposit accounts (cash) that are collateralized in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4400 et. Seq. of the Code) have no limit on the amount deposited. Investments in excess of these stated limits shall be allowed on a temporary basis for up to 120 days in the event of a large transaction, or series of transactions, until they can be invested in accordance with policy.

The Town had the following investments at June 30 that exceeded 5 percent of the total investment balance. These investments were not considered by management to represent a risk to the Town.

Issuer	Fair Value	Percent of Total Portfolio
Federal Home Loan Bank	\$3,508,358	10.0%
Walt Disney Corp	\$1,995,533	5.7%

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The benchmark yield will be evaluated on an annual basis based on actual portfolio results over the prior 12 months and the expected portfolio average maturity over the future 12-month period. Return on investment is of secondary importance compared to the safety and liquidity objectives. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity.

Investments will be scheduled to ensure liquidity of funds to cover all expenditures. Investments may be invested with a target portfolio average maturity to be a maximum term of five years. A projection of the Town's cash flow needs over a period of at least 12 months will be used to ensure adequate liquidity of funds.

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, 2018 investments are held in a bank's trust department in the Town's name.

Restricted Amounts:

Restricted cash and cash equivalents consist of the following:

Non-expendable corpus of the cemetery perpetual care fund	\$ 847,322
Unspent grant proceeds	291,723
Unspent bond proceeds	135,129
Cemetery perpetual care funds	109,828
Public safety asset seizure funds	47,401
Total restricted cash and cash equivalents	<u>\$ 1,431,403</u>

In addition, the IDA held restricted cash for payments made by the Salem Volunteer Fire Department, in the amount of \$55,755. These funds will be used towards the IDA's payment on their Rural Development loan described in more detail in Notes 3 and 8.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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	\$ 581,002	\$ -	\$ -	\$ -	\$ 581,002
Accounts	<u>635,526</u>	<u>449,775</u>	<u>566,365</u>	<u>1,628,069</u>	<u>3,279,735</u>
Gross receivables	1,216,528	449,775	566,365	1,628,069	3,860,737
Less: allowance for uncollectibles	<u>(285,397)</u>	<u>(13,208)</u>	<u>(15,705)</u>	<u>(49,184)</u>	<u>(363,494)</u>
Receivables, net	<u>\$ 931,131</u>	<u>\$ 436,567</u>	<u>\$ 550,660</u>	<u>\$ 1,578,885</u>	<u>\$ 3,497,243</u>

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 \$954,523 at June 30, 2018. 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>
2019	\$ 15,415	\$ 32,215
2020	15,935	31,695
2021	16,473	31,157
2022	17,029	30,601
2023	17,604	30,026
2024-2028	97,341	140,809
2029-2033	114,914	123,236
2034-2038	135,660	102,490
2039-2043	160,151	77,999
2044-2048	189,063	49,087
2049-2052	<u>174,938</u>	<u>14,975</u>
	<u>\$ 954,523</u>	<u>\$ 664,290</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Interfund Advance and Transfers

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

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

Year Ended June 30	Principal	Interest
2019	\$ 55,995	\$ 1,697
2020	56,554	1,137
2021	57,120	571
	\$ 169,669	\$ 3,405

Interfund transfers are as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water	General	\$ 105,495
Wastewater	General	134,610
Electric	General	367,860
		\$ 607,965

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

Note 5. Due From Other Governmental Units

Amounts due from other governmental units are as follows:

County of Culpeper:	
Local sales tax (General Fund)	\$ 266,843
Parking Authority (General Fund)	70,499
Federal and Commonwealth of Virginia:	
VDOT (General Fund)	354,191
Other (General Fund)	42,776
USDA (Water Fund)	1,140,118
DCR (Water Fund)	500,116
VMEA (Electric Fund)	455,811
Other (Wastewater Fund)	15,597
Total due from other governmental units	\$ 2,845,951

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land and easements	\$ 4,308,646	\$ -	\$ -	\$ 4,308,646
Construction in progress	<u>1,219,731</u>	<u>57,006</u>	<u>(1,209,183)</u>	<u>67,554</u>
Total capital assets, not depreciated	<u>5,528,377</u>	<u>57,006</u>	<u>(1,209,183)</u>	<u>4,376,200</u>
Capital assets, depreciated:				
Buildings and improvements	23,992,441	2,079,725	-	26,072,166
Machinery and equipment	8,546,465	363,780	(197,404)	8,712,841
Infrastructure	<u>61,228,030</u>	<u>1,196,313</u>	<u>-</u>	<u>62,424,343</u>
Total capital assets, depreciated	<u>93,766,936</u>	<u>3,639,818</u>	<u>(197,404)</u>	<u>97,209,350</u>
Less accumulated depreciation:				
Buildings and improvements	12,214,776	603,819	-	12,818,595
Machinery and equipment	6,410,911	495,783	(158,829)	6,747,865
Infrastructure	<u>26,041,910</u>	<u>1,595,880</u>	<u>-</u>	<u>27,637,790</u>
Total accumulated depreciation	<u>44,667,597</u>	<u>2,695,482</u>	<u>(158,829)</u>	<u>47,204,250</u>
Net capital assets, depreciated	<u>49,099,339</u>	<u>944,336</u>	<u>(38,575)</u>	<u>50,005,100</u>
Governmental activities capital assets, net	<u>\$ 54,627,716</u>	<u>\$ 1,001,342</u>	<u>\$ (1,247,758)</u>	<u>\$ 54,381,300</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 2,669,500	\$ 72,051	\$ (1,140,082)	\$ 1,601,469
Construction in progress	<u>8,124,149</u>	<u>9,809,064</u>	<u>(4,848,105)</u>	<u>13,085,108</u>
Total capital assets, not depreciated	<u>10,793,649</u>	<u>9,881,115</u>	<u>(5,988,187)</u>	<u>14,686,577</u>
Capital assets, depreciated:				
Buildings and improvements	102,846,404	2,876,510	(3,095,337)	102,627,577
Machinery and equipment	10,343,763	635,214	-	10,978,977
Infrastructure	<u>833,519</u>	<u>8,015,424</u>	<u>-</u>	<u>8,848,943</u>
Total capital assets, depreciated	<u>114,023,686</u>	<u>11,527,148</u>	<u>(3,095,337)</u>	<u>122,455,497</u>
Less accumulated depreciation:				
Buildings and improvements	55,684,355	2,298,434	(3,046,174)	54,936,615
Machinery and equipment	5,507,187	854,715	-	6,361,902
Infrastructure	<u>33,894</u>	<u>135,978</u>	<u>-</u>	<u>169,872</u>
Total accumulated depreciation	<u>61,225,436</u>	<u>3,289,127</u>	<u>(3,046,174)</u>	<u>61,468,389</u>
Net capital assets, depreciated	<u>52,798,250</u>	<u>8,238,021</u>	<u>(49,163)</u>	<u>60,987,108</u>
Business-type activities capital assets, net	<u>\$ 63,591,899</u>	<u>\$ 18,119,136</u>	<u>\$ (6,037,350)</u>	<u>\$ 75,673,685</u>

Depreciation expense was charged to functions/programs as follows:

Primary Government – Governmental Activities	
General government administration	\$ 384,654
Public safety	308,786
Public works	1,889,851
Parks, recreation, and cultural	29,517
Community development	<u>82,674</u>
Total governmental activities	<u>\$ 2,695,482</u>
Primary Government – Business-Type Activities	
Water	\$ 985,247
Wastewater	1,319,985
Electric	<u>983,895</u>
Total business-type activities	<u>\$ 3,289,127</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 the VRS Retirement Plan upon employment. This multi-employer agent plan is 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. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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 and the eligibility for covered groups within each plan are 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 and have not taken a refund.
- **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. 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.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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. Age 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%.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

• **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**

- **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
- **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

- **Disability Coverage** – 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.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.
- **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%.
 - **Eligibility** – Same as Plan 1.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

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. 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.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

• **Creditable Service –**

- **Defined Benefit Component** – Under the defined benefit component of the plan, 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.
- **Defined Contributions Component** – Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

• **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.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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.
- **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.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **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.
 - **Defined Contribution Component** – Not Applicable.
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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 an 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** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>101</u>
Inactive members:	
Vested inactive members	22
Non-vested inactive members	35
Inactive members active elsewhere in VRS	<u>61</u>
Total inactive members	118
Active members	<u>174</u>
Total covered employees	<u><u>393</u></u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018 was 10.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

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 \$980,900 and \$989,180 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2016, 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, 2017.

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*

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	40.00 %	4.54 %	1.82 %
Developed Non U.S. Equity	15.00	0.69	0.10
Emerging Market Equity	15.00	3.96	0.59
Fixed Income	15.00	5.76	0.86
Cash	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

- * The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

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, 2019, 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, 2019 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.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	\$ 37,403,695	\$ 29,614,741	\$ 7,788,954
Changes for the year:			
Service cost	1,020,476	-	1,020,476
Interest	2,559,097	-	2,559,097
Changes of assumptions	(403,442)	-	(403,442)
Differences between expected and actual experience	74,729	-	74,729
Contributions – employer	-	989,180	(989,180)
Contributions – employee	-	469,814	(469,814)
Net investment income	-	3,609,673	(3,609,673)
Benefit payments, including refunds of employee contributions	(1,690,336)	(1,690,336)	-
Refunds of employee contributions			
Administrative expenses	-	(20,645)	20,645
Other changes	-	(3,222)	3,222
Net changes	1,560,524	3,354,464	(1,793,940)
Balances at June 30, 2017	\$ 38,964,219	\$ 32,969,205	\$ 5,995,014

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability	\$ 11,276,947	\$ 5,995,014	\$ 1,631,251

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$668,740. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 63,637	\$ 59,017
Changes of assumptions	-	301,563
Net difference between projected and actual earnings on pension plan investments	-	476,794
Employer contributions subsequent to the measurement date	<u>980,900</u>	<u>-</u>
Total	<u>\$ 1,044,537</u>	<u>\$ 837,374</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$980,900 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	\$ (400,788)
2020	25,009
2021	(88,846)
2022	(309,112)
2023	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately \$116,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 8. Long-Term Liabilities

Primary Government

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 14,351,169	\$ -	\$ 1,265,780	\$ 13,085,389	\$ 1,284,036
Bond premium	1,237,344	-	96,787	1,140,557	96,787
Compensated absences	<u>750,937</u>	<u>777,701</u>	<u>823,743</u>	<u>704,895</u>	<u>563,895</u>
Governmental activities long-term liabilities	<u>\$ 16,339,450</u>	<u>\$ 777,701</u>	<u>\$ 2,186,310</u>	<u>\$ 14,930,841</u>	<u>\$ 1,944,718</u>
Business-Type Activities:					
General obligation bonds	\$ 29,547,831	\$ -	\$ 1,941,220	\$ 27,606,611	\$ 1,471,964
Other obligations payable	44,009	-	44,009	-	-
Bond premium	2,419,429	-	149,345	2,270,084	149,345
Compensated absences	<u>239,852</u>	<u>312,291</u>	<u>285,076</u>	<u>267,067</u>	<u>213,653</u>
Business-Type activities long-term liabilities	<u>\$ 32,251,121</u>	<u>\$ 312,291</u>	<u>\$ 2,419,650</u>	<u>\$ 30,143,762</u>	<u>\$ 1,834,962</u>

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

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 8. Long-Term Liabilities (Continued)

Primary Government (Continued)

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

Year Ended June 30	General Obligation Bonds			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 1,284,036	\$ 440,835	\$ 1,471,964	\$ 955,587
2020	1,214,549	401,714	1,513,452	906,893
2021	1,189,804	363,537	1,567,195	856,713
2022	1,184,000	325,423	1,578,000	800,645
2023	1,150,000	279,337	1,651,000	735,049
2024-2028	5,608,000	673,854	7,386,000	2,821,485
2029-2033	1,455,000	104,550	7,273,000	1,537,129
2034-2038	-	-	5,166,000	419,333
	<u>\$ 13,085,389</u>	<u>\$ 2,589,250</u>	<u>\$ 27,606,611</u>	<u>\$ 9,032,835</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
Refunding Bond	3.00 - 4.00 %	2010	2021	\$ 19,925,000	\$ 1,975,389	\$ 1,729,611
Public Improvement Bond	2.10 - 2.41	2012	2033	10,000,000	2,945,000	5,900,000
Public Improvement Bond	2.33 - 2.68	2013	2028	4,796,000	3,087,000	953,000
Public Improvement Bond	1.51	2014	2019	430,000	113,000	-
Public Improvement Bond	2.95	2014	2035	3,800,000	-	3,399,000
Refunding Bond	2.00 - 5.00	2016	2038	20,745,000	4,965,000	15,625,000
					<u>\$ 13,085,389</u>	<u>\$ 27,606,611</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Rural Development Loan	\$ 983,859	\$ -	\$ 14,425	\$ 969,434	\$ 14,912

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

<u>Year Ended June 30</u>	<u>Rural Development Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 14,912	\$ 32,718
2020	15,415	32,215
2021	15,935	31,695
2022	16,473	31,157
2023	17,029	30,601
2024-2028	94,163	143,987
2029-2033	111,163	126,987
2034-2038	131,231	106,919
2039-2043	154,922	83,228
2044-2048	182,891	55,259
2049-2053	215,300	22,242
	<u>\$ 969,434</u>	<u>\$ 697,008</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Industrial Development Authority</u>
Rural Development Loan	3.375%	2013	2053	\$ 1,037,000	<u>\$ 969,434</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

	<u>General Fund</u>	<u>Industrial Development Authority</u>
Interest collected in advance from the fire department (unearned)	\$ -	\$ 7,798
Total unearned revenue	-	7,798
Uncollected property tax billing (unavailable)	250,738	-
Uncollected sales tax billing (unavailable)	131,180	-
Other (unavailable)	115,859	-
Total unavailable/unearned revenue	<u>\$ 497,777</u>	<u>\$ 7,798</u>

Note 10. Other Post-Employment Benefits- Local Plan

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.

Health benefits include medical, dental, and vision insurance. Retirees may also elect to cover eligible spouses and/or dependents. Participating retirees pay 100% of the monthly premium cost to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	4
Active plan members	<u>178</u>
	<u><u>182</u></u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Other Post-Employment Benefits- Local Plan (Continued)

Total OPEB Liability

The Town's total OPEB liability of \$1,640,437 was measured as of June 30, 2017 and was determined based on an actuarial valuation performed as of June 30, 2017.

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases, including inflation	3.5 – 5.35%
Healthcare cost trend rates	5.9% in 2018 5.6% in 2019 6.3% in 2020 4.2% by 2075

The withdrawal, retirement, mortality, and disability assumptions were changed to be consistent with the assumptions used in the June 30, 2017 valuation of the Virginia Retirement System. These changes decreased the plan's actuarial liability by about \$59,800 as of June 30, 2017.

As required by GASB 75, the actuarial cost method was changed from projected unit credit to entry age normal (level percentage of pay). This change increased the plan's actuarial liability by about \$202,500 as of June 30, 2017.

The assumed percentage of future retirees electing medical coverage upon retirement was increased from 30% to 35%. The percentage of future retirees assumed to also elect to cover their spouse upon retirement was decreased from 30% to 20%. These changes increased the plan's actuarial liability by about \$58,200 as of June 30, 2017.

Demographic experience between June 30, 2016 and June 30, 2017 differed from what was expected. This decreased the plan's actuarial liability by about \$69,200 as of June 30, 2017.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Other Post-Employment Benefits- Local Plan (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2017	\$ 1,528,970
Changes for the year:	
Service cost	85,789
Interest	55,992
Benefit payments	<u>(30,314)</u>
Net changes	<u>111,467</u>
Balance at June 30, 2018	<u><u>\$ 1,640,437</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.5%) or one percentage point higher (4.5%) than the current discount rate:

	<u>1.00% Decrease (2.5%)</u>	<u>Current Discount Rate (3.5%)</u>	<u>1.00% Increase (4.5%)</u>
Total OPEB liability	\$ <u>1,827,477</u>	\$ <u>1,640,437</u>	\$ <u>1,475,028</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.9%) or one percentage point higher (6.9%) than the current healthcare cost trend rates:

	<u>1.00% Decrease (4.9%)</u>	<u>Current Healthcare Cost Trend Rates (5.9%)</u>	<u>1.00% Increase (6.9%)</u>
Total OPEB liability	\$ <u>1,427,107</u>	\$ <u>1,640,437</u>	\$ <u>1,897,356</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Other Post-Employment Benefits- Local Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$141,781. At June 30, 2018, the political subdivision reported no actuarially determined deferred outflows and inflows of resources related to OPEB. However, \$30,313 of contributions made subsequent to the measurement date were recorded as a deferred outflow at June 30, 2018 and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Town also participates in one cost-sharing other postemployment benefit plan, described as follows.

Plan Description

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple employer, cost sharing plans.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	\$49,555
June 30, 2017 Contribution	\$43,912

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	\$772,000
June 30, 2017 proportion	0.051%
June 30, 2016 proportion	0.051%
June 30, 2018 expense	\$10,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 17,000
Changes of assumptions	-	40,000
Net difference between projected and actual earnings on OPEB plan investments	-	29,000
Changes in proportion	5,000	-
Employer contributions subsequent to the measurement date	49,555	-
Total	<u>\$ 54,555</u>	<u>\$ 86,000</u>

The deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (17,000)
2020	(17,000)
2021	(17,000)
2022	(17,000)
2023	(9,000)
Thereafter	(4,000)

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	7.0%

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 7.

Net OPEB Liabilities

The net OPEB liabilities represents the VRS total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net OPEB liability (asset)	\$ 1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities (Continued)

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

Group Life Insurance and Health Insurance Credit Programs

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 7.

Discount Rate

The discount rate used to measure the GLI OPEB 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 Guidance 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, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liabilities of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	\$ 998,000	\$ 772,000	\$ 588,000

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2018, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

- Group Life Insurance \$10,000

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Summary of Pension and Other Postemployment Benefit Elements

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Deferred outflows of resources - Pensions			
Differences between expected and actual experience			
VRS Retirement Plan	\$ 46,041	\$ 17,596	\$ 63,637
Employer contributions subsequent to the measurement date			
VRS Retirement Plan	709,684	271,216	980,900
Total deferred outflow of resources - Pensions	<u>\$ 755,725</u>	<u>\$ 288,812</u>	<u>\$ 1,044,537</u>
Deferred outflows of resources - OPEB			
Changes in proportion			
VRS- Group Life Insurance	\$ 3,606	\$ 1,394	5,000
Employer contributions subsequent to the measurement date			
Local Plan	21,335	8,978	30,313
VRS- Group Life Insurance	35,740	13,815	49,555
Total deferred outflow of resources - OPEB	<u>\$ 60,681</u>	<u>\$ 24,187</u>	<u>\$ 84,868</u>
Total deferred outflows of resources	<u>\$ 816,406</u>	<u>\$ 312,999</u>	<u>\$ 1,129,405</u>
Net pension liability			
VRS	\$ 4,337,410	\$ 1,657,604	\$ 5,995,014
Total net pension liability	<u>\$ 4,337,410</u>	<u>\$ 1,657,604</u>	<u>\$ 5,995,014</u>
Net OPEB liability			
Local Plan	\$ 1,154,519	\$ 485,918	1,640,437
VRS- Group Life Insurance	556,785	215,215	772,000
Total net OPEB liability	<u>\$ 1,711,304</u>	<u>\$ 701,133</u>	<u>\$ 2,412,437</u>
Deferred inflows of resources - Pensions			
Differences between expected and actual experience			
VRS Retirement Plan	\$ 42,699	\$ 16,318	\$ 59,017
Changes of assumptions			
VRS Retirement Plan	218,182	83,381	301,563
Net difference between projected and actual earnings on plan investments			
VRS Retirement Plan	344,962	131,832	476,794
Total deferred inflow of resources – Pensions	<u>\$ 605,843</u>	<u>\$ 231,531</u>	<u>\$ 837,374</u>
Deferred inflows of resources - OPEB			
Differences between expected and actual experience			
VRS- Group Life Insurance	\$ 12,261	\$ 4,739	\$ 17,000
Changes of assumptions			
VRS- Group Life Insurance	28,849	11,151	40,000
Net difference between projected and actual earnings on plan investments			
VRS- Group Life Insurance	20,915	8,085	29,000
Total deferred inflow of resources - OPEB	<u>\$ 62,025</u>	<u>\$ 23,975</u>	<u>\$ 86,000</u>
Total deferred inflows of resources	<u>\$ 667,868</u>	<u>\$ 255,506</u>	<u>\$ 923,374</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. 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:

	General Fund	Other Governmental Funds
Restricted for:		
Community development – unused grant proceeds	\$ 291,723	\$ -
Public safety- asset seizure funds	47,401	-
Cemetery perpetual care	-	109,828
Total restricted	<u>339,124</u>	<u>109,828</u>
Nonspendable:		
Prepays	125,672	-
Corpus of a permanent fund	-	847,322
Total nonspendable	<u>125,672</u>	<u>847,322</u>
Assigned for:		
Approved carryovers and encumbrances:		
General government administration	32,125	-
Public safety	4,990	-
Public works	721,269	-
Community development	291,242	-
Sanitation equipment replacement fund	340,390	
Other capital projects	2,114,402	-
Total assigned	<u>3,504,418</u>	<u>-</u>
Unassigned	<u>10,711,025</u>	<u>-</u>
Total fund balance	<u><u>\$ 14,680,239</u></u>	<u><u>\$ 957,150</u></u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 14. 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 \$7,063,739 for the year ended June 30, 2018. Of these purchases, \$629,878 is included in accounts payable as of June 30, 2018. 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. During FY18, two separate true-ups were necessary. Expenses were reduced by approximately \$456,000 as part of the annual true-up based on actual costs. A true-up of approximately \$411,000 also reduced expenses based on transmission peak shaving which created credits for VMEA to allocate to each member.

Note 15. 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. The real estate tax rate for 2017 taxes due January 31, 2018 was \$.10 per \$100 of assessed value. Residents who live in the Southridge, Lafayette Ridge, and Willow Shade districts pay an additional special assessment of \$.06, \$.08, and \$.03 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.

Note 16. Risk Management

The Town's risk management program is primarily addressed via insurance coverage with VACORP, a member-owned insurance risk pool.

Workers' Compensation

Premiums are based on covered payroll, job rates and claims experience. Total premiums for the year ended June 30, 2018 were approximately \$176,000.

Line of Duty Act Coverage

The Town purchases insurance coverage for Line of Duty Act (LODA) claims approved by the State for career and volunteer law enforcement officers who are injured or killed while performing their duties. Total premiums for the year ended June 30, 2018 were approximately \$39,000.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 16. Risk Management (Continued)

General Liability and Other

The Town purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident, cyber security, and automobile liability from VACORP. The Town's property and contents are insured up to a limit of approximately \$81.5 million. The Town maintains an \$8,000,000 excess 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 VACORP. Total premiums for 2018 were approximately \$207,000.

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 17. 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.

In July 2017, a court order was issued in a case involving the value of property acquired by condemnation in 2013, whereby the Town was obligated to pay additional compensation for the property in the amount of \$295,773 (for a total of \$762,240), plus accrued interest. This order was affirmed in additional court proceedings in September 2017, and the Town paid approximately \$310,000 to the Circuit Court of Culpeper County. The property owner has appealed this decision, seeking additional compensation. The Town believes it is unlikely that the appeal will result in additional compensation being awarded.

In August 2018, a vendor submitted a claim of approximately \$1,584,000 regarding a capital project delay and additional expense. The Town is disputing the claim, however should the matter proceed to trial, the potential minimum estimated loss is \$125,000 for defense attorneys and experts. Should the Town's defense be unsuccessful, the potential loss is approximately \$1,600,000 plus the cost for defense attorneys and experts. The vendor has submitted another claim however has not specified an amount.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 17. Commitments and Contingencies (Continued)

Reservoir Improvement Projects

The Town is required by a regulatory agency to make significant improvements to its Mountain View and Lake Pelham reservoirs at an estimated cost of \$16.5 million. The Town received two grants totaling \$10.7 million from the US Department of Agriculture National Resources Conservation Service (NRCS) and a third grant from the Virginia Department of Conservation and Recreation Dam Safety, Flood Prevention and Protection Assistance Fund in the amount of \$2,942,000 to develop rehabilitation plans and to assist with the design and certain construction phases of the project. The Town's local match is approximately \$2.8 million for the project.

Note 18. Adoption of New Standard and Prior Period Restatement

In the current year the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Fund</u>
Net position, June 30, 2017, as previously reported	\$ 47,497,010	\$ 24,119,427	\$ 23,234,163	\$ 6,240,153
Recognition of other post-employment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	<u>(1,363,440)</u>	<u>(186,160)</u>	<u>(190,569)</u>	<u>(179,255)</u>
Net position, June 30, 2017, as restated	<u>\$ 46,133,570</u>	<u>\$ 23,933,267</u>	<u>\$ 23,043,594</u>	<u>\$ 6,060,898</u>

Additionally, in the current year the Town separated the cemetery perpetual care fund into two non-major funds. As described in Note 1, the cemetery perpetual care fund breaks out the restricted earnings to be used to support the Town's cemetery therefore, the beginning fund balance is only the restricted earnings portion of prior year's fund balance. The cemetery permanent fund's beginning fund balance is the nonspendable portion related to the cemetery corpus.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 19. New Accounting Standards

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

The GASB issued **Statement No. 81**, *Irrevocable Split-Interest Agreements* in March 2016. 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. The requirements of this Statement are effective for periods beginning after December 15, 2016.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 85**, *Omnibus 2017* in March 2017. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for periods beginning after June 15, 2017.

The GASB issued **Statement No. 86**, *Certain Debt Extinguishment Issues* in May 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The requirements of this Statement are effective for periods beginning after June 15, 2017.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CULPEPER, VIRGINIA

EXHIBIT 11

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2018**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 3,155,750	\$ 3,155,750	\$ 3,695,916	\$ 540,166
Local sales and use taxes	1,375,000	1,375,000	1,682,396	307,396
Business license tax	1,036,500	1,036,500	1,115,874	79,374
Franchise license tax	120,000	120,000	112,655	(7,345)
Bank stock tax	340,000	340,000	431,595	91,595
Cigarette tax	150,000	150,000	165,818	15,818
Hotel and motel room tax	430,000	430,000	498,669	68,669
Food and beverage tax	4,150,000	4,150,000	4,257,578	107,578
Local consumption tax	60,000	60,000	62,127	2,127
Permits, privilege fees, and regulatory licenses	287,000	287,000	339,691	52,691
Fines and forfeitures	124,000	124,000	113,085	(10,915)
Revenues from use of money and property	238,000	238,000	353,354	115,354
Charges for services	291,976	291,976	325,112	33,136
Other	321,050	321,050	251,708	(69,342)
Recovered costs	2,345,286	2,345,286	2,332,603	(12,683)
Intergovernmental	4,429,305	4,499,305	2,807,406	(1,691,899)
Total revenues	18,853,867	18,923,867	18,545,587	(378,280)
EXPENDITURES				
Current:				
General government administration				
Town council	190,536	196,176	192,172	4,004
Town manager	114,846	115,846	115,610	236
Town clerk	288,814	300,474	274,420	26,054
Human resources	290,698	295,284	295,284	-
Legal services	110,860	110,860	71,321	39,539
Independent auditor	58,600	58,600	57,226	1,374
Treasurer	1,337,070	1,341,148	1,268,840	72,308
Risk management	125,505	125,505	119,029	6,476
Information technology	1,192,987	1,192,987	1,201,941	(8,954)
Motor pool	244,784	246,503	246,503	-
Total general government administration	3,954,700	3,983,383	3,842,346	141,037
Public safety				
Police department	5,247,957	5,247,957	5,025,066	222,891
Total public safety	5,247,957	5,247,957	5,025,066	222,891

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2018**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Public works				
Public works administration	\$ 253,591	\$ 253,591	\$ 177,077	\$ 76,514
Streets	2,664,698	2,940,698	2,238,962	701,736
Refuse collection	392,949	392,949	366,267	26,682
General properties	545,204	618,204	463,653	154,551
Total public works	3,856,442	4,205,442	3,245,959	959,483
Parks, recreation, and cultural				
Parks and recreation	619,831	668,169	655,534	12,635
Cemetery	141,596	141,596	114,454	27,142
Total parks, recreation, and cultural	761,427	809,765	769,988	39,777
Community development				
Planning and zoning	583,517	583,517	538,334	45,183
Visitors center	59,238	63,338	58,618	4,720
Tourism	392,667	461,517	434,337	27,180
Economic development	193,395	225,895	217,769	8,126
Contributions	317,867	321,939	321,939	-
Total community development	1,546,684	1,656,206	1,570,997	85,209
Capital projects	2,843,030	6,843,896	1,183,567	5,660,329
Debt service:				
Principal retirement	1,263,780	1,265,837	1,265,780	57
Interest and fiscal charges	457,412	457,412	457,469	(57)
Total debt service	1,721,192	1,723,249	1,723,249	-
Total expenditures	19,931,432	24,469,898	17,361,172	7,108,726
Excess of expenditures over revenues	(1,077,565)	(5,546,031)	1,184,415	6,730,446
OTHER FINANCING SOURCES (USES)				
Reserve balances	342,247	4,545,713		(4,545,713)
Transfers in	735,318	1,000,318	607,965	(392,353)
Total other financing sources (uses)	1,077,565	5,546,031	607,965	(4,938,066)
Net change in fund balances	\$ -	\$ -	\$ 1,792,380	\$ 1,792,380

Note 1: The budget is adopted in accordance with the modified accrual basis of accounting plus changes in encumbrances.
See below for reconciliation of fund balance per this schedule to Exhibit 5.

Change in fund balance	\$ 1,792,380
Encumbrances	<u>538,568</u>
Change in fund balance per Ex 5	<u>\$ 2,330,948</u>

TOWN OF CULPEPER, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2018

	Plan Year			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 1,020,476	\$ 972,070	\$ 945,867	\$ 910,207
Interest on total pension liability	2,559,097	2,447,694	2,338,187	2,233,895
Change of assumptions	(403,442)	-	-	-
Difference between expected and actual experience	74,729	(111,475)	27,383	-
Benefit payments, including refunds of employee contributions	(1,690,336)	(1,743,316)	(1,750,779)	(1,557,640)
Net change in total pension liability	1,560,524	1,564,973	1,560,658	1,586,462
Total pension liability - beginning	37,403,695	35,838,722	34,278,064	32,691,602
Total pension liability - ending	38,964,219	37,403,695	35,838,722	34,278,064
Plan Fiduciary Net Position				
Contributions - employer	989,180	1,077,344	1,104,432	965,805
Contributions - employee	469,814	454,467	429,532	413,261
Net investment income	3,609,673	512,613	1,292,934	3,870,612
Benefit payments, including refunds of employee contributions	(1,690,336)	(1,743,316)	(1,750,779)	(1,557,640)
Administrative expenses	(20,645)	(18,024)	(17,631)	(20,826)
Other	(3,222)	(216)	(272)	204
Net change in plan fiduciary net position	3,354,464	282,868	1,058,216	3,671,416
Plan fiduciary net position - beginning	29,614,741	29,331,873	28,273,657	24,602,241
Plan fiduciary net position - ending	32,969,205	29,614,741	29,331,873	28,273,657
Net pension liability - ending	\$ 5,995,014	\$ 7,788,954	\$ 6,506,849	\$ 6,004,407
Plan fiduciary net position as a percentage of total pension liability	85%	79%	82%	82%
Covered payroll	\$ 9,444,008	\$ 9,127,485	\$ 8,634,324	\$ 8,329,057
Net pension liability as a percentage of covered payroll	63%	85%	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, 2018

Town Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a percentage of Covered Payroll
Primary Government					
2018	\$ 980,900	\$ 980,900	\$ -	\$ 9,454,182	10.38%
2017	989,180	989,180	-	9,444,008	10.47%
2016	1,077,344	1,077,344	-	9,127,485	11.80%
2015	1,104,432	1,104,432	-	8,634,324	12.79%

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

The Notes to Required Supplementary Information are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2018

	<u>Plan Year</u> <u>2017</u>
	<u>Local Plan</u>
Total OPEB Liability	
Service cost	\$ 85,789
Interest on total OPEB liability	55,992
Benefit payments, including refunds of employee contributions	<u>(30,314)</u>
Net change in total OPEB liability	111,467
Total OPEB liability - beginning	<u>1,528,970</u>
Total OPEB liability - ending	<u><u>\$ 1,640,437</u></u>
Covered payroll	<u><u>\$ 9,444,008</u></u>
Net OPEB liability as a percentage of covered payroll	<u><u>17.37%</u></u>

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) 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 EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.05%	\$ 772,000	\$ 9,454,182	8.17%	48.86%

The Notes to Required Supplementary Information are an integral part of this statement.

TOWN OF CULPEPER, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2018	\$ 49,555	\$ 49,555	\$ -	\$ 9,454,182	0.52%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

TOWN OF CULPEPER, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2018

Note 1. Changes of Benefit Terms

Pension

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, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension and GLI OPEB

Largest 10 –Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

TOWN OF CULPEPER, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension and GLI OPEB

Teacher cost-sharing pool

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension and GLI OPEB

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - PARKING AUTHORITY
Year Ended June 30, 2018

	<u>Balances Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances Ending</u>
ASSETS				
Cash and cash equivalents	\$ 8,927	\$ 43,438	\$ 52,365	\$ -
Receivables	3,168	-	80	3,088
Future amounts to be collected to liquidate liabilities	73,738	-	5,644	68,094
Total assets	<u>\$ 85,833</u>	<u>\$ 43,438</u>	<u>\$ 58,089</u>	<u>\$ 71,182</u>
LIABILITIES				
Account payable and due to fiscal agent	\$ 85,833	\$ 296	\$ 14,947	\$ 71,182
Total liabilities	<u>\$ 85,833</u>	<u>\$ 296</u>	<u>\$ 14,947</u>	<u>\$ 71,182</u>

TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET – GOVERNMENTAL FUND
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2018**

	Industrial Development Authority
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 77,525
Cash and cash equivalents, restricted	55,755
Total assets	<u>\$ 133,280</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 4,732
Unearned revenue	47,629
Total Liabilities	<u>52,361</u>
Fund Balance:	
Assigned	<u>80,919</u>
Total fund balance	<u>80,919</u>
Total liabilities and fund balance	<u>\$ 133,280</u>
Amounts reported in the Statement of Net Position (Exhibit 1) are different because:	
Total fund balance	\$ 80,919
Long-term assets, including notes receivable, are not due and receivable in the current period and therefore are not reported in the funds.	954,523
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.	39,831
Long-term liabilities, including debt and interest payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(994,355)</u>
Net position of governmental activities	<u>\$ 80,918</u>

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2018**

	Industrial Development Authority
	<hr/>
REVENUES	
Intergovernmental grants	\$ 251,530
	<hr/>
Total revenues	251,530
	<hr/>
EXPENDITURES	
Community development	252,607
	<hr/>
Total expenditures	252,607
	<hr/>
Deficiency of revenue over expenditures	(1,077)
	<hr/>
Net change in fund balance	(1,077)
	<hr/>
FUND BALANCE AT JULY 1	81,995
	<hr/>
FUND BALANCE AT JUNE 30	\$ 80,918
	<hr/> <hr/>

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

Net change in fund balance	\$ (1,077)
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.	(14,913)
Interest earned related to long-term notes receivable does not represent current financial resources and therefore are not reported as revenue in the funds.	(371)
Repayment of debt is an expenditure in the governmental fund but reduces long-term liabilities in the statement of net position.	14,913
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.	371
	<hr/>
Change in net position of governmental activities	\$ (1,077)
	<hr/> <hr/>

STATISTICAL SECTION

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.

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	1-4
Revenue Capacity These tables contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.	5-8
Debt Capacity 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.	9-12
Demographic and Economic Information 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.	13-14
Operating Information 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.	15-17

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 and GASB Statement 75 in 2018; 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									
	2018 ⁽³⁾	2017 ⁽²⁾	2016 ⁽²⁾	2015 ^{(1) (2)}	2014 ⁽²⁾	2013 ⁽²⁾	2012	2011	2010	2009 ⁽²⁾
Governmental Activities										
Net investment in capital assets	\$ 40,487,615	\$ 41,387,460	\$ 43,759,691	\$ 43,149,400	\$ 35,443,423	\$ 25,529,232	\$ 17,766,505	\$ 19,571,754	\$ 21,719,577	\$ 23,576,860
Restricted	1,296,274	1,811,790	1,739,191	1,581,752	1,438,266	1,303,598	598,758	542,416	592,481	-
Unrestricted	8,044,105	4,297,760	1,364,636	870,870	4,622,870	2,015,193	9,013,312	8,022,110	5,600,105	3,726,292
Total governmental activities net position	<u>\$ 49,827,994</u>	<u>\$ 47,497,010</u>	<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>
Business-Type Activities										
Net investment in capital assets	\$ 46,875,816	\$ 32,641,915	\$ 27,865,064	\$ 26,550,954	\$ 27,911,757	\$ 25,590,844	\$ 29,971,833	\$ 27,499,978	\$ 28,124,024	\$ 22,251,714
Restricted	-	-	-	-	-	-	-	-	-	2,470,415
Unrestricted	18,096,222	20,951,828	23,628,617	23,270,667	23,275,294	25,738,585	21,724,844	24,972,697	24,981,973	26,519,207
Total business-type activities net position	<u>\$ 64,972,038</u>	<u>\$ 53,593,743</u>	<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>
Primary Government										
Net investment in capital assets	\$ 87,363,431	\$ 74,029,375	\$ 71,624,755	\$ 69,700,354	\$ 63,355,180	\$ 51,120,076	\$ 47,738,338	\$ 47,071,732	\$ 49,843,601	\$ 45,828,574
Restricted	1,296,274	1,811,790	1,739,191	1,581,752	1,438,266	1,303,598	598,758	542,416	592,481	2,470,415
Unrestricted	26,140,327	25,249,588	24,993,253	24,141,537	27,898,164	27,753,778	30,738,156	32,994,807	30,582,078	30,245,499
Total primary government net position	<u>\$ 114,800,032</u>	<u>\$ 101,090,753</u>	<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>

⁽¹⁾ GASB Statement No. 68 was adopted in fiscal year 2015.⁽²⁾ These totals are as previously reported. A prior period adjustment was required which modified these amounts.⁽³⁾ GASB Statement No. 75 was adopted in fiscal year 2018.

TABLE 2

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenses										
Governmental Activities:										
General government	\$ 1,813,136	\$ 2,118,903	\$ 1,782,797	\$ 1,580,634	\$ 2,069,656	\$ 1,820,939	\$ 2,014,118	\$ 1,337,825	\$ 1,257,522	\$ 1,631,860
Public safety	5,279,682	5,392,894	4,826,442	4,466,205	4,620,506	4,355,486	3,982,363	4,014,472	3,962,281	4,082,574
Public works	5,378,213	5,381,340	4,677,492	4,622,046	4,882,783	3,927,287	3,609,893	3,230,087	3,615,820	4,196,462
Parks, recreation, and cultural	777,456	727,557	734,657	658,510	869,890	952,084	759,713	581,190	541,764	555,241
Community development	1,688,724	1,443,117	1,404,450	1,403,802	1,463,571	1,448,109	1,374,210	1,854,682	1,709,856	1,116,215
Interest on long-term debt	390,139	323,497	557,705	502,905	567,245	529,532	430,650	338,982	509,832	295,133
Total governmental activities	15,327,350	15,387,308	13,983,543	13,234,102	14,473,651	13,033,437	12,170,947	11,357,238	11,597,075	11,877,485
Business-Type Activities:										
Water	5,256,395	4,074,774	3,880,069	3,483,189	3,947,082	3,173,641	3,080,472	2,989,018	2,836,510	3,044,418
Wastewater	5,055,057	5,345,589	5,533,867	5,146,396	5,401,822	5,438,022	5,322,081	5,480,065	3,745,960	4,778,920
Electric	11,253,585	10,939,680	10,710,274	11,640,544	11,823,318	10,592,276	11,195,220	10,158,556	8,884,255	9,596,223
Total business-type activities expense	21,565,037	20,360,043	20,124,210	20,270,129	21,172,222	19,203,939	19,597,773	18,627,639	15,466,725	17,419,561
Total primary government expenses	36,892,387	35,747,351	34,107,753	33,504,231	35,645,873	32,237,376	31,768,720	29,984,877	27,063,800	29,297,046
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	117,936	90,053	81,443	63,438	53,062	189,022	-	-	-	-
Public safety	188,458	202,554	195,365	159,236	157,238	185,890	244,823	188,207	217,637	158,783
Public works	366,920	313,983	432,509	390,969	322,027	224,756	216,426	134,538	149,335	75,307
Parks, recreation, and cultural	461,456	430,210	420,362	410,854	430,869	408,606	401,784	477,141	358,254	387,853
Community development	27,718	19,471	37,304	35,243	41,585	31,878	19,357	8,461	9,678	-
Operating grants and contributions	2,355,582	2,377,321	2,164,513	2,180,092	2,400,103	2,088,055	1,892,927	2,527,695	2,280,820	1,744,620
Capital grants and contributions	2,285,924	365,253	294,304	7,738,062	2,292,433	959,384	-	-	-	-
Total governmental activities program revenues	5,803,994	3,798,845	3,625,800	10,977,894	5,697,317	4,087,591	2,775,317	3,336,042	3,015,724	2,366,563
Business-Type Activities:										
Charges for services:										
Water	4,562,888	4,455,697	5,125,832	4,265,875	4,102,902	3,711,935	3,177,413	2,893,750	3,022,229	2,977,336
Wastewater	5,952,387	5,768,125	5,662,133	5,269,322	5,224,087	4,441,288	3,421,975	3,204,475	3,383,665	3,243,368
Electric	12,486,678	11,711,465	11,592,942	12,106,804	11,444,085	11,188,316	10,855,157	10,680,058	9,735,008	9,824,763
Operating grants and contributions	15,597	29,542	24,020	1,369	3,047	-	14,852	-	-	-
Capital grants and contributions	10,846,873	994,049	-	-	818,910	22,000	2,083	11,806	2,823,708	817,398
Total business-type activities program revenues	33,864,423	22,958,878	22,404,927	21,643,370	21,593,031	19,363,539	17,471,480	16,790,089	18,964,610	16,862,865
Total primary government program revenues	39,668,417	26,757,723	26,030,727	32,621,264	27,290,348	23,451,130	20,246,797	20,126,131	21,980,334	19,229,428
Net (Expense) Revenue										
Governmental activities	(9,523,356)	(11,588,463)	(10,357,743)	(2,256,208)	(8,776,334)	(8,945,846)	(9,395,630)	(8,021,196)	(8,581,351)	(9,510,922)
Business-type activities	12,299,386	2,598,835	2,280,717	1,373,241	420,809	159,600	(2,126,293)	(1,837,550)	3,497,885	(556,696)
Total primary government net expense	2,776,030	(8,989,628)	(8,077,026)	(882,967)	(8,355,525)	(8,786,246)	(11,521,923)	(9,858,746)	(5,083,466)	(10,067,618)

(Continued)

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes										
Property taxes	\$ 3,814,435	\$ 3,334,858	\$ 3,062,450	\$ 3,095,547	\$ 3,052,885	\$ 2,905,805	\$ 2,764,759	\$ 2,757,576	\$ 3,159,991	\$ 2,568,973
Sales taxes	1,641,902	1,555,660	1,363,040	1,371,546	1,409,401	1,299,219	1,257,483	986,332	1,069,068	937,575
Business license tax	1,115,874	1,072,996	1,043,272	1,035,641	1,044,986	1,092,986	1,060,265	1,010,056	1,103,611	1,064,862
Franchise license tax	112,655	116,110	119,031	123,143	123,331	126,439	137,179	140,920	125,654	141,265
Motor vehicle license	-	-	-	-	-	-	-	-	-	-
Bank stock tax	431,595	390,832	338,243	349,495	305,972	287,309	273,240	329,972	271,467	235,807
Cigarette tax	165,818	156,238	167,265	162,582	173,094	183,297	126,516	144,010	148,459	177,417
Hotel and motel room tax	498,669	449,636	342,965	325,775	328,032	249,896	299,089	256,929	256,849	225,343
Food and beverage tax	4,257,578	4,115,524	3,941,061	3,727,506	3,362,648	2,622,243	1,846,124	1,790,476	1,748,975	1,762,648
Local consumption tax	62,127	62,701	61,254	71,380	65,165	61,845	59,249	53,883	54,759	62,491
Other local taxes	13,543	-	-	-	4,918	971	2,195	4,074	4,245	-
Intergovernmental revenue	285,596	230,933	231,707	231,499	231,885	231,473	443,255	285,193	230,617	230,058
Investment earnings	117,859	45,754	36,412	18,793	20,845	25,279	13,663	22,309	25,398	135,773
Other	92,164	50,778	331,402	165,826	103,546	74,341	54,908	163,583	453,053	508,078
Special Item: Annexation of State Roads	-	-	-	-	-	680,433	-	-	-	-
Transfers	607,965	611,435	593,538	625,612	594,982	573,758	300,000	300,000	302,145	-
Total governmental activities	13,217,780	12,193,455	11,631,640	11,304,345	10,821,690	10,415,294	8,637,925	8,245,313	8,954,291	8,050,290
Business-Type Activities:										
Investment earnings	242,858	127,950	60,471	30,050	37,648	46,910	216,685	252,103	329,668	738,832
Other	-	13,212	8,301	6,668	-	-	1,433,610	1,252,125	573,216	-
Insurance recovery	-	-	3,474	7,929	447,114	-	-	-	-	-
Transfers	(607,965)	(611,435)	(593,538)	(625,612)	(594,982)	(573,758)	(300,000)	(300,000)	(302,145)	-
Total business-type activities	(365,107)	(470,273)	(521,292)	(580,965)	(110,220)	(526,848)	1,350,295	1,204,228	600,739	738,832
Total primary government	12,852,673	11,723,182	11,110,348	10,723,380	10,711,470	9,888,446	9,988,220	9,449,541	9,555,030	8,789,122
Changes in Net Position										
Governmental activities	3,694,424	604,992	1,273,897	9,048,137	2,045,356	1,469,448	(757,705)	224,117	372,940	(1,460,632)
Business-type activities	11,934,279	2,128,562	1,759,425	792,276	310,589	(367,248)	(775,998)	(633,322)	4,098,624	182,136
Total primary government	\$ 15,628,703	\$ 2,733,554	\$ 3,033,322	\$ 9,840,413	\$ 2,355,945	\$ 1,102,200	\$ (1,533,703)	\$ (409,205)	\$ 4,471,564	\$ (1,278,496)

TABLE 3

TOWN OF CULPEPER, VIRGINIA

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

	2018	2017	2016	2015 ^{(1) (2)}	2014 ⁽¹⁾	2013 ⁽¹⁾	2012	2011
Post-GASB54:								
General Fund								
Nonspendable	\$ 125,672	\$ 82,081	\$ -	\$ -	\$ 86,437	\$ 146,178	\$ 80,810	\$ 58,070
Restricted	339,124	2,957,401	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	3,504,418	2,491,370	448,203	86,656	352,985	1,353,321	648,657	4,557,951
Unassigned	10,711,025	6,818,439	5,663,645	5,377,641	4,726,934	823,784	314,975	4,000,756
Total general fund	<u>\$ 14,680,239</u>	<u>\$ 12,349,291</u>	<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>
All Other Governmental Funds								
Nonspendable	\$ 847,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	109,828	893,371	822,133	758,254	703,499	638,704	598,758	542,416
Total all other governmental funds	<u>\$ 957,150</u>	<u>\$ 893,371</u>	<u>\$ 822,133</u>	<u>\$ 758,254</u>	<u>\$ 703,499</u>	<u>\$ 638,704</u>	<u>\$ 598,758</u>	<u>\$ 542,416</u>
	2010	2009 ⁽¹⁾						
Pre-GASB54:								
General Fund								
Reserved	\$ 237,575	\$ -						
Unreserved	8,714,679	3,698,776						
Total general fund	<u>\$ 8,952,254</u>	<u>\$ 3,698,776</u>						
All Other Governmental Funds								
Unreserved, reported in:								
Permanent fund	<u>\$ 478,881</u>	<u>\$ 421,547</u>						
Total all other governmental funds	<u>\$ 478,881</u>	<u>\$ 421,547</u>						

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

⁽²⁾ 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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
Taxes	\$12,022,628	\$11,264,283	\$10,456,591	\$ 10,185,335	\$ 9,852,810	\$ 8,794,666	\$ 7,834,966	\$ 7,432,462	\$ 7,738,427	\$ 7,145,133
Permits, privilege fees, and licenses	339,691	297,808	364,246	275,969	304,884	255,905	294,185	278,571	256,426	178,108
Fines and forfeitures	113,085	134,158	118,324	122,292	103,206	129,654	129,778	123,623	166,292	158,783
Investment earnings	364,243	213,887	212,379	202,029	210,983	210,859	191,908	232,691	249,704	356,434
Charges for services	378,002	295,860	279,147	328,502	293,820	255,751	284,563	200,374	92,425	62,041
Other	251,708	131,122	196,889	300,545	216,950	288,051	46,727	122,168	401,587	510,323
Recovered costs	2,332,603	2,288,113	2,208,363	2,027,731	1,835,240	1,817,446	2,009,672	2,052,104	1,630,016	1,544,137
Grant proceeds	-	-	-	-	-	-	-	-	-	25,090
Intergovernmental	2,807,406	2,853,111	2,690,525	4,707,381	3,953,986	3,279,435	2,342,176	2,975,718	2,562,603	1,949,588
Total revenues	18,609,366	17,478,342	16,526,464	18,149,784	16,771,879	15,031,767	13,133,975	13,417,711	13,097,480	11,929,637
Expenditures										
General government	3,814,621	3,738,385	3,590,533	3,306,228	3,190,149	3,146,377	2,703,451	2,491,505	2,146,254	2,594,924
Public safety	5,020,076	4,996,798	4,619,766	4,317,699	4,290,573	4,018,716	3,902,392	3,920,633	3,866,967	4,006,766
Public works	3,184,690	3,628,459	3,514,464	3,259,396	3,330,713	3,110,447	3,045,848	2,820,311	2,678,356	3,287,064
Parks, recreation, and cultural	769,988	703,051	730,184	665,109	828,728	906,712	715,352	654,533	489,512	512,386
Community development	1,570,997	1,417,717	1,414,780	1,425,637	1,435,055	1,286,951	1,335,520	1,140,210	1,233,053	1,115,101
Capital projects	738,983	1,284,343	884,820	5,709,587	5,466,703	3,918,542	841,828	1,628,829	2,174,668	3,408,564
Debt service:										
Principal	1,265,780	1,249,267	1,227,548	1,074,903	933,736	784,741	716,123	573,103	498,974	835,589
Interest	457,469	410,324	511,519	533,486	520,199	442,610	419,506	412,271	393,527	299,844
Bond issuance costs	-	-	73,022	7,896	53,236	56,846	115,832	150,834	27,991	-
Total expenditures	16,822,604	17,428,344	16,566,636	20,299,941	20,049,092	17,671,942	13,795,852	13,792,229	13,509,302	16,060,238
Excess of revenues over (under) expenditures	1,786,762	49,998	(40,172)	(2,150,157)	(3,277,213)	(2,640,175)	(661,877)	(374,518)	(411,822)	(4,130,601)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	4,990,000	430,000	3,676,500	3,720,000	900,000	10,223,397	5,629,000	540,124
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	607,965	611,435	593,538	625,612	594,982	573,758	300,000	300,000	302,145	-
Total other financing sources (uses)	607,965	611,435	962,946	1,055,612	4,271,482	4,293,758	1,200,000	450,834	5,931,145	540,124
Net change in fund balances	\$ 2,394,727	\$ 661,433	\$ 922,774	\$ (1,094,545)	\$ 994,269	\$ 1,653,583	\$ 538,123	\$ 76,316	\$ 5,519,323	\$ (3,590,477)
Debt service as a percentage of noncapital expenditures	12.02%	10.33%	11.57%	11.23%	9.69%	8.98%	8.59%	7.91%	7.87%	9.86%

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		
2018	\$1,789,850,200	\$168,970,393	\$22,987,435	\$40,667,473	\$110,293	\$2,022,585,794	1.90
2017	1,664,811,915	163,594,889	23,736,598	34,518,204	12,199	1,886,673,805	1.91
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	50,527,487	1,924,451	1,494,714,659	1.93
2010	1,283,747,600	128,919,003	21,446,734	48,045,998	1,911,743	1,484,071,078	1.91
2009	1,785,785,500	139,139,665	22,495,201	40,564,090	1,668,322	1,989,652,778	1.89

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

(1) Per \$100 of assessed value.

Source: Treasurer Department Tax Records, Town of Culpeper, Virginia.

TABLE 6

TOWN OF CULPEPER, VIRGINIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES (1)

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	
2018	0.10	1.00	0.80	0.10	1.00	0.67	3.50	1.90
2017	0.11	1.00	0.80	0.11	1.00	0.73	3.50	1.91
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

(1) Per \$100 of assessed value

Source: Treasurer's Department Tax Records, Town of Culpeper, Virginia.

TABLE 7

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

June 30, 2018

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Society for Worldwide Interbank	Banking Operations	\$ 20,045,900	1.12%
Culpeper Regency LLC	Shopping Centers	\$ 16,065,600	0.90%
Dominion Square – Culpeper LLC	Shopping Center	\$ 13,373,700	0.75%
Walmart Real Estate Business Trust	Retail / Grocery	\$ 11,987,300	0.67%
15179 Culpeper Retail LLC	Shopping Center	\$ 10,120,600	0.57%
VA Equities LLC Culpeper Marketplace	Shopping Center	\$ 9,812,900	0.55%
Target Corporation	Retail / Grocery	\$ 7,813,300	0.44%
Southridge/Culpeper LP	Rental Residential & Commercial	\$ 7,567,600	0.42%
Lowe's Home Centers, Inc.	Retail	\$ 7,509,800	0.42%
Masco Builder Cabinet Group	Manufacturing	\$ 7,081,300	0.40%
Total Real Property Assessed Value		\$ 1,789,850,200	100.00%

June 30, 2009

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Dominion Square – Culpeper LLC	Shopping Center	\$ 16,070,400	0.90%
Society for Worldwide Interbank	Banking Operations	\$ 15,246,200	0.85%
Walmart Real Estate Business Trust	Retail / Grocery	\$ 13,288,100	0.74%
Continental 181 Fund LLC	Manufacturing	\$ 11,731,400	0.66%
Culpeper Commons LP	Rental Residential	\$ 8,152,500	0.46%
Southridge/Culpeper LP	Rental Residential & Commercial	\$ 8,084,600	0.45%
Masco Builder Cabinet Group	Manufacturing	\$ 7,662,900	0.43%
Culpeper Shopping Center Joint Venture	Shopping Center	\$ 7,065,300	0.40%
Culpeper House LTD Partnership	Rental Residential	\$ 6,849,300	0.38%
Medical Facilities of America XVI	Nursing Home / Elderly Care	\$ 6,615,800	0.37%
Total Real Property Assessed Value		\$ 1,785,785,500	100.00%

Source: Treasurer Department Tax Records, Town of Culpeper, Virginia.

TABLE 8

TOWN OF CULPEPER, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Tax Year	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
2018	2017	\$ 3,641,210	\$ 3,401,152	93.41%	\$ -	\$ 3,401,152	93.41 %
2017	2016	3,306,918	3,071,240	92.87%	157,611	3,228,851	97.64
2016	2015	3,145,381	2,880,923	91.59%	158,741	3,039,664	96.64
2015	2014	3,110,426	2,816,413	90.55%	216,457	3,032,870	97.51
2014	2013	3,065,598	2,774,376	90.50%	220,303	2,994,679	97.69
2013	2012	2,932,627	2,663,855	90.84%	211,001	2,874,856	98.03
2012	2011	2,807,337	2,593,123	92.37%	167,003	2,760,126	98.32
2011	2010	2,779,525	2,612,794	94.00%	113,331	2,726,125	98.08
2010	2009	2,668,612	2,521,959	94.50%	111,887	2,633,846	98.70
2009	2008	2,775,956	2,595,877	93.51%	137,067	2,732,944	98.45

Source: Treasurer Department Tax Records, Town of Culpeper, Virginia.

TABLE 9

TOWN OF CULPEPER, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities	Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General	General Obligation Bonds*			Capital Leases			
	Obligation Bonds*	Water Bonds	Wastewater Bonds	Electric Bonds				
2018	\$ 14,225,946	\$ 8,663,316	\$ 16,684,924	\$ 4,528,455	\$ -	44,102,641	5584.63%	2,395
2017	15,588,513	9,382,689	17,660,393	4,924,178	44,009	47,599,782	6363.23%	2,599
2016	16,963,068	10,042,032	18,733,482	5,309,323	81,180	51,129,085	7204.08%	2,840
2015	17,787,190	10,688,607	18,479,818	5,509,370	150,658	52,615,643	7520.88%	2,997
2014	18,457,598	7,394,349	19,289,433	5,852,615	212,707	51,206,702	7751.32%	2,941
2013	15,758,484	6,764,750	20,076,104	6,114,792	67,430	48,781,560	7485.67%	2,845
2012	12,866,875	3,037,383	20,857,910	4,245,381	109,073	41,116,622	6609.83%	2,472
2011	12,788,716	3,439,116	21,864,156	4,482,978	-	42,574,966	7735.36%	2,555
2010	13,097,918	3,838,241	21,900,138	4,705,832	-	43,542,129	8271.27%	2,658
2009	7,968,892	4,029,785	22,134,345	4,929,746	-	39,062,768	8889.78%	2,790

* 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		
2018	\$ 44,102,641	2.18%	2,395
2017	47,555,773	2.52%	2,597
2016	51,047,905	2.76%	2,835
2015	52,464,985	3.23%	2,988
2014	50,993,995	3.19%	2,929
2013	48,714,130	3.17%	2,841
2012	41,007,549	3.06%	2,465
2011	42,574,966	2.85%	2,555
2010	43,542,129	2.93%	2,658
2009	39,062,768	1.96%	2,790

TABLE 11

TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Debt limit	\$ 183,051,767	\$ 169,933,012	\$ 167,503,920	\$ 146,035,245	\$ 143,728,480	\$ 146,959,170	\$ 119,659,666	\$ 133,179,360	\$ 182,634,959	\$ 178,578,550
Total net debt applicable to limit	14,225,946	15,588,513	16,963,068	17,787,190	18,457,598	15,758,484	12,866,875	12,788,716	13,097,918	7,967,892
Legal debt margin	<u>\$ 168,825,821</u>	<u>\$ 154,344,499</u>	<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>\$ 120,390,644</u>	<u>\$ 169,537,041</u>	<u>\$ 170,610,658</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>7.77%</u>	<u>9.17%</u>	<u>10.13%</u>	<u>12.18%</u>	<u>12.84%</u>	<u>10.72%</u>	<u>10.75%</u>	<u>9.60%</u>	<u>7.17%</u>	<u>4.46%</u>

Legal Debt Margin Calculation for Fiscal Year 2018

Assessed value	<u>\$ 1,830,517,673</u>
Debt limit (10% of assessed value)	\$ 183,051,767
Less debt applicable to limit:	
General obligation bonds	<u>(14,225,946)</u>
Legal debt margin	<u>\$ 168,825,821</u>

TABLE 12

TOWN OF CULPEPER, VIRGINIA

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses (1)	Net Available Revenue	Debt Service (2)		Coverage
				Principal	Interest	
2018	\$20,530,203	\$ 16,141,044	\$ 4,389,159	\$ 1,985,229	\$ 1,102,319	1.42
2017	19,650,537	16,697,265	2,953,272	2,033,903	867,744	1.02
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

All reported Town debt issues are General Obligation bonds. This Table data is provided to show the portion of debt service allocated to Enterprise Funds, and what the Revenue Coverage would be in the event the related debt had been issued as Enterprise Fund Revenue Bonds.

Notes:

- (1) Operating expenses do not include depreciation, interest, or amortization expenses.
- (2) Details regarding the Town's outstanding debt can be found in the Notes to Financial Statements.

TABLE 13

TOWN OF CULPEPER, VIRGINIA

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year Ended	Population	Personal Income (in thousands)	Per Capita Personal Income	Median Income	Median Age	School Enrollment	Unemployment Rate
2018*	18,413	\$ 789,715	\$ 42,889	\$ 67,682	39.2	3,929	3.00%
2017	18,312	748,044	40,850	67,232	39.4	3,776	3.60%
2016	18,006	709,724	39,416	66,964	39.0	3,775	3.70%
2015	17,557	699,594	39,847	66,697	38.8	3,755	5.00%
2014	17,411	660,619	37,943	65,235	38.5	3,935	5.80%
2013	17,145	651,666	38,009	64,423	38.4	4,610	5.50%
2012	16,633	622,053	37,399	65,567	38.3	5,700	6.50%
2011	16,662	550,394	33,033	66,458	38.3	3,247	6.40%
2010	16,379	526,426	32,140	65,132	31.9	3,682	8.00%
2009	14,003	439,412	31,380	64,359	38.0	3,036	8.30%

*Note: *2018 Estimated*

Sources: Virginia Employment Commission
 Weldon Cooper Center for Public Service
 US Census Bureau
 Department of Labor
 Financial Reserve Bank of St Louis Economic Research

TABLE 14

TOWN OF CULPEPER, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Ten Years Ago

June 30, 2018

Employer	Product/Service	Total Estimated Employees	Percent of Workforce
Culpeper County School Board	Governmental Office	1000 - 4999	N/A
Culpeper Medical Center	Healthcare	500 - 999	N/A
Culpeper County Government	Governmental Office	500 - 999	N/A
Wal-Mart	Retail / Grocery	250 - 499	N/A
S.W.I.F.T., Inc.	Data Center	250 - 499	N/A
Rappahannock Rapidan Community Services	Health Care and Social Assistance	250 - 499	N/A
Cintas Uniforms Service	Service Business	100 - 249	N/A
Virginia Department of Transportation	State Government - Transportation Program	100 - 249	N/A
Masco Builder Cabinet (Merilat)	Manufacturing	100 - 249	N/A
Town of Culpeper	Governmental Office	100 - 249	N/A
County Total Workforce		15,643	

June 30, 2009

Employer	Product/Service	Total Estimated Employees	Percent of Workforce
Culpeper County Schools	Governmental Office	1186	N/A
Culpeper Regional Hospital	Healthcare	600	N/A
Wal-Mart	Retail / Grocery	598	N/A
Culpeper County Government	Governmental Office	400	N/A
Continental Automotive	Manufacturing	316	N/A
VA Dept of Transportation	State Government - Transportation Program	284	N/A
Cintas	Service Business	265	N/A
Culpeper Health & Rehabilitation	Healthcare	175	N/A
The Rochester Corporation	Optic Cables	166	N/A
Town of Culpeper	Governmental Office	154	N/A

Source: (2009) Planning Department, Town of Culpeper, Virginia.**Source: (2018) Virginia Employment Commission, Economic Information & Analytics, LMI**

TABLE 15

TOWN OF CULPEPER, VIRGINIA

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

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
Management services (includes Council = 4.5)	5.5	5.5	5.5	5.5	6	5	6	7	7	7
Finance	16	15	14	12	9	9	10	10	10	9
Planning	6	5	5	5	5	5	5	4	3	4
Building	2	2	2	0	2	2	2	1	1	1
Other (including Clerk, Information Technology, Engineering, Tourism, Human Resources)	21	19	20	18.5	15.5	16	17	9	11	13
Public Safety										
Officers	43	42	40	42	42	42	39	41	41	40
Civilians	9	10	11	8	9	8	9	8	8	5
Public Works										
Refuse collection	4	4	5	5	5	4	5	5	5	5
Streets	17	18	17	18	22	15	10	13	13	13
Other	4	4	4	12	4	4	6	4	5	5
Parks and Recreation										
Parks	5	5	5	5	8	8	6	5	7	7
Other	2	2	2	1.5	7	3	1	3	3	3
Water and Wastewater Operations	35	34	33	34	39	32	36	31	23	31
Electric Operations	14	17	16	17	18	19	16	17	18	17

Source: Finance Department payroll records, Town of Culpeper, Virginia.

TABLE 16

TOWN OF CULPEPER, VIRGINIA

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Public Safety										
Traffic violations	2,482	3,110	2,013	2,075	2,246	2,755	2,180	3,471	4,086	4,149
Parking violations	1,636	1,496	1,838	1,342	1,226	1,876	1,439	1,643	2,530	3,265
Arrests	1,205	1,167	1,266	1,330	1,346	1,389	1,386	1,320	499	-
Total crimes	1,801	1,681	1,742	1,680	1,542	1,871	1,783	1,823	1,845	1,654
Public Works										
Street paving – crack sealant in pounds	129	-	-	693	136	4,740	20,442	30,000	30,000	30,000
Street paving – milling in sq. yds.	5,678	30,388	-	14,691	10,384	1,011	21,755	9,575	33,347	17,870
Street paving – bituminous concrete in tons	2,482	4,503	-	1,814	1,858	2,884	5,495	4,504	4,839	6,645
Recycling – cardboard in pounds	-	49,367	59,240	57,640	69,540	73,020	81,420	89,320	90,460	74,000
Recycling – newspaper in pounds	-	-	-	-	-	-	-	-	-	18,500
Water Operations										
Number of service connections	7,352	7,103	7,093	6,930	6,931	6,651	6,579	6,507	6,466	6,439
Average daily consumption in gallons	2,080,000	2,060,000	2,011,007	2,070,638	1,900,000	1,700,000	1,499,109	1,760,000	1,700,000	2,000,000
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	4,000,000
Maximum daily capacity of wells in gallons	1,900,000	918,000	918,000	918,000	-	-	-	-	-	-
Wastewater Operations										
Number of service connections	7,024	6,849	6,823	6,667	6,662	6,382	6,315	6,238	6,190	6,184
Average daily consumption in gallons	2,900,000	2,900,000	3,160,000	2,880,000	3,400,000	3,700,000	1,371,855	2,620,000	3,000,000	2,400,000
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	6,000,000	6,000,000	4,000,000
Electric Operations										
Number of service connections	5,481	5,408	5,357	5,323	5,214	5,087	5,099	5,063	4,987	4,921
Average monthly consumption in kilowatt-hours	1,569	1,597	1,540	1,574	1,615	1,628	1,611	1,673	1,466	1,592
Highest system peak demand in megawatts	26.20	27.58	27.58	27.47	26.37	25.56	25.66	25.72	25.70	25.22

Source: Internal data from various departments, Town of Culpeper, Virginia.

TABLE 17

TOWN OF CULPEPER, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Public Safety										
Stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	37	44	44	36	36	33	33	33	33	29
Public Works										
Streets (miles)	68	67	66	66	66	66	62	64	62	62
Street & yard lights	1,172	1,054	1,054	1,054	1,054	1,109	1,116	1,133	1,133	1,175
Traffic signals	17	19	19	19	20	20	19	15	15	14
Water Operations										
Miles of water main	106.0	104.7	104.0	102.6	101.4	100.0	99.0	99.0	99.0	99.0
Number of fire hydrants	750	734	725	713	740	737	678	678	678	678
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of wells	6	3	3	3	-	-	-	-	-	-
Wastewater Operations										
Miles of sanitary sewer	98.0	97.6	96.8	95.5	95.5	96.0	95.0	95.0	95.0	95.0
Miles of storm sewer	32.2	32.0	30.5	30.5	30.5	30.0	20.0	20.0	20.0	20.0
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of pumping stations	12	11	11	10	9	9	9	9	9	9
Electric Operations										
Miles of overhead lines (miles)	32.2	27.9	27.7	27.7	27.7	27.7	27.7	27.7	N/A	N/A
Miles of underground lines (miles)	134.3	46.7	44.5	44.5	44.1	42.9	41.8	41.8	N/A	N/A
Number of sub-stations (115 kV)	1	1	1	1	1	1	1	1	1	1
Number of delivery points (34.5 kV)	1	1	1	1	1	0	0	0	1	2

Note: Certain Electric operation information not available prior to 2011.

Source: Internal data from various departments, Town of Culpeper, Virginia.

COMPLIANCE SECTION

Town of Culpeper, Virginia

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture: Pass Through Payments: Watershed Rehabilitation Program	10.916	68-33A7-14-003 and 68-33A7-14-003	\$ 5,448,326
Total Department of Agriculture			\$ 5,448,326
Department of Justice: Pass Through Payments: Edward Byrne Memorial Justice Assistance Equitable Sharing Program	16.738 16.922	1710010 and 1711538	\$ 3,050 \$ 1,515
Total Department of Justice			\$ 4,565
Department of Transportation: Pass Through Payments: 522- Road Diet State and Community Highway Safety	20.205 20.600	57025-6674, 57023-6672, 58334-8334, 58337-8337	\$ 54,718 \$ 12,978
Total Department of Transportation			\$ 67,696
Department of Homeland Security: Pass Through Payments: Disaster Grants - Public Assistance	97.036	404299047553 and 426299053434	\$ 42,167
Total Department of Homeland Security			\$ 42,167
Total Expenditures of Federal Awards			<u>\$ 5,562,754</u>

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.

NOTE 3 - OUTSTANDING LOAN BALANCES:

At June 30, 2018, the Town had no outstanding loan balances requiring continuing disclosure.

**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 the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, 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, 2018, 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 20, 2018.

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 first 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 have not been identified. **Given these limitations we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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*.**

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 20, 2018

**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 program for the year ended June 30, 2018. 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, and the terms and conditions of its federal awards applicable to its federal program.

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 the 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, 2018.

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 the 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 20, 2018

TOWN OF CULPEPER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2018

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, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements was 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 instance of noncompliance** material to the financial statements was 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 **no 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

No findings were noted in the current year.

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

No findings were noted in the current year.

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

D. FINDINGS– COMMONWEALTH OF VIRGINIA

2018- 001: Statement of Economic Interest Filing

Condition:

The Town received statements of economic interest after the January 15th filing deadline. This occurred for one of the twenty eight 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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2017- 003: Bank Reconciliation (Material Weakness)

Condition:

Monthly bank account reconciliations are the primary internal control procedure relating to the Town's cash accounts. During fiscal year 2017, bank account reconciliations were prepared; however, the accounts were not completely reconciled. As of June 30, 2017, there was an unreconciled amount of approximately \$49,000 in the regular checking account. Although this amount may appear not to be material to the overall financial position of the Town, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Recommendation:

Unreconciled amounts should be investigated and not be allowed to carry over from month to month.

Views of Responsible Officials:

Given the limited size of the Treasurer's Office and turn-over in staff during the year, we recognize that improvements can be made. We will continue to investigate the differences in the bank reconciliation and ensure that such errors do not continue. We will also look for ways to utilize the new system to improve the bank reconciliation process.

Current Status:

No similar findings were noted in the 2018 audit.