

TOWN OF CULPEPER, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

TREASURER'S OFFICE

TOWN OF CULPEPER, VIRGINIA
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INTRODUCTORY SECTION

TOWN OF CULPEPER

TREASURERS OFFICE

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

January 2, 2015

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, 2014. This report was audited by the independent certified public accounting firm of Brown Edward & Company, and the responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner that presents fairly the financial position and results of operations of the Town's various funds, and component units. All necessary disclosures have been included to enable the reader to gain an understanding of the financial activities of the Town.

THE REPORTING ENTITY AND SERVICES PROVIDED

The financial reporting entity includes all funds of the Town as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Industrial Development Authority is the only discretely presented component unit of the Town. In fiscal year 2014, the Parking Authority is reported as an Agency Fund.

The Town of Culpeper provides a full range of services to its citizens including government administration; police protection; sanitation; the construction and maintenance of highways, streets, and infrastructure; general engineering; and planning and community development. In addition, the Town contributes to volunteer fire and rescue departments, economic and tourism development programs, cultural events, recreational activities and other civic and community service non-profit organizations. The Town also operates and manages electric, water, and sewer utilities, that serve approximately 7,829 customers.

ECONOMIC CONDITION AND OUTLOOK

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

Due to this, the outlook for the Town remains overall upbeat. The Town remains a primary commercial and service area. The Town is fortunate to rely on taxes (i.e., meals) as sources of revenues to balance the governmental fund budget. The Town faces many challenges in the coming years to address the demands on capital facilities and operations of a growing population.

MAJOR INITIATIVES IN FY14

FY14 brought a continued focus on improvement of Town operations and planning for a growing community. The following either began or continued during the fiscal year:

- Water Supply - The Town continues work to identify additional and supplemental sources of water and is working with a company to identify well sites within the County
- Streetscapes and Entryways - The town has budgeted and continues to make efforts to improve the downtown parking facilities, sidewalks, trails, bikeways and parks. This includes the three-phase Streetscapes and Entryways Project that will be funded 50% by VDOT Enhancement Grant money.
- Automated Meter Reading - This project is funded by the Water Fund, Waste-Water Fund, and the Light & Power Fund. We are collecting \$1.00 for each water & sewer meter and \$1.50 for each electric meter as a special assessment for the AMR project. AMR provides more accurate and timely meter readings, helps reduce the frequency of estimated readings, allows customers to view their energy/water usage on a daily basis, and eliminates the need to hire additional personnel and equipment to meet the demands of the growing customer base.
- Long-term Financial Planning - This allows the Town the ability to meet its upgrade and financing needs without negatively impacting the tax base and the Town's bond rating. The Town has developed a 5-year plan for replacement of fleet vehicles for General Fund and Enterprise Fund departments and this plan coupled with the Town's Capital Improvements Plan serves as the basis for projects in our Master Plan.

MAJOR INITIATIVES IN THE FUTURE

FY14 brings a continued focus on improvement of Town operations and planning for a growing community.

- Transportation and related projects continue to be a major focus in the future. The Town is actively working with VDOT on several transportation improvement projects. Construction work is underway for the Town's Inner Loop project and it is expected to be complete in FY15; the West Street widening project was completed in early FY14.
- Economic Development, Business Retention and Business Attraction are major initiatives for the Town and will involve a multi-disciplinary approach. The downtown businesses and businesses outside the historic district are all part of a cooperative approach of economic development that includes the Town partnering with the Chamber of Commerce, Culpeper Renaissance Incorporated and the County of Culpeper Economic Development department.
- Infrastructure Maintenance and Improvements are critical for any business and is a prime focus for the Town. This includes the Town's water and wastewater system and electrical system, its buildings, equipment and vehicles. The Town is in its fourth full year of implementation of this Financial Master.

DEPARTMENT FOCUS

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

Highlights during and subsequent to the fiscal year 2014 are:

Revenue Collections

The Town utilizes a number of methods to secure payment of back taxes and overdue utilities, including DMV-Stops (license renewal is blocked until past due amounts are paid), warrants-in-debt and property liens.

Internal Controls

Internal controls are a critical component of the Treasurer's office and all segments of operations within the department, as well as between the Treasurer's office and other Town departments, are under review. Necessary improvements are implemented to maintain a responsive service level to the Town citizens and employees.

Utilize Technology

The Town of Culpeper has implemented 98% of its Automatic Meter Reading, a new improved utility reader. The remaining feature, Customer Enhancement (commonly referred to as CE, is expected to be fully functional in FY15.

Staffing

Council approved three new positions with one funded in FY14. These positions include 1) Accounting Clerk, 2) Senior Accountant, and 3) Chief Accountant. The Treasurer's Office has been actively recruiting for Senior Accountant, the funded position since February of 2014.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

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

OTHER INFORMATION

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

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the independent auditor's report.

Awards. The Government Finance Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Culpeper for its Comprehensive Annual Financial Report for the fiscal year ended, June 30, 2013. 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.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

A handwritten signature in cursive script, reading "Pon Chen Yusuf". The signature is written in dark ink and is positioned above the printed name and title.

Pon Chen Yusuf
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, 2013

Executive Director/CEO

TOWN OF CULPEPER, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

TOWN COUNCIL

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

David B. Lochridge
Keith D. Price
Frank Reaves, Jr
Jon D. Russell

Pranas A. Rimeikis
Robert M. Ryan
Meghan Taylor

APPOINTED OFFICIALS

TOWN MANAGER
Dewey Cashwell, Jr.

TOWN CLERK
Kimberly D. Allen

TREASURER/DIRECTOR OF FINANCE
Pon Yusuf

TOWN ATTORNEY
Martin R. Crim

DEPARTMENT HEADS

DIRECTOR OF LIGHT AND POWER
Michael Stover

DIRECTOR OF PUBLIC WORKS
Jim Hoy

CHIEF OF POLICE
Chris Jenkins

**DIRECTOR OF PLANNING AND
COMMUNITY DEVELOPMENT**
Patrick Mulhern

DIRECTOR OF INFORMATION TECHNOLOGY
Tonya Estes

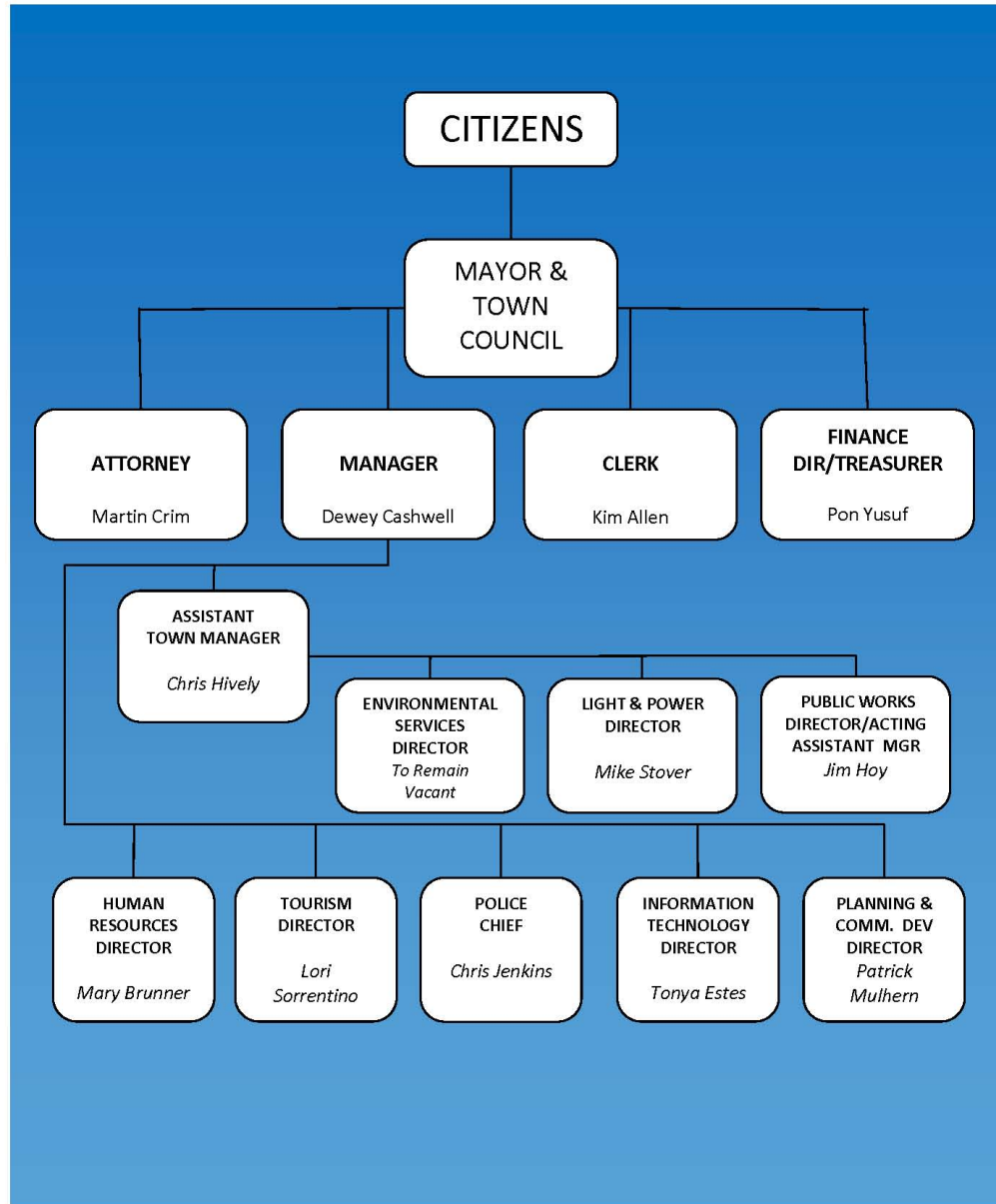
TOURISM DIRECTOR
Lori Sorrentino

DIRECTOR OF ENVIRONMENTAL SERVICES
Chris Hively

**DIRECTOR OF HUMAN
RESOURCES**
Mary Murphy

TOWN OF CULPEPER, VIRGINIA

ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on 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, as of and for the year ended June 30, 2014, 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 of 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As described in Note 10 to the financial statements, during 2014 the Town adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, budgetary comparison information and schedules of funding progress, 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 as a whole. The introductory section and other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information is the responsibility of management and derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 is fairly stated in all material respects in relation to the 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 January 2, 2015, 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 of Culpeper's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
January 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Culpeper, Virginia (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014 and 2013. 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 *vi* of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of current fiscal year by \$92,691,610 (net position). Of this amount, \$27,898,164 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by a significant amount in donated infrastructure.
- At the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$12,602,707 (Exhibit 3), an increase of \$994,269 over the prior year. Of this total governmental fund balance, \$4,726,934 represents the unassigned fund balance. This includes \$4.5M committed for reserves as part of the recently implemented reserves policy. The remaining amount of \$226,934 is available for spending at the government's discretion.
- The Town's total net debt increased by \$2.8M, mainly due to the new debt issuance in General Improvement Obligation Bonds net with the debt service principal pay down.

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

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

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

Overview of the Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net positions may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$92,691,610 at the close of the most recent fiscal year.

Government-Wide Financial Analysis (Continued)

A portion of the Town's net position, \$63,355,180 (68.4%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Town's net position, \$703,499 (1.6%), is restricted for the cemetery fund. The remaining balance of *unrestricted net position* (30.1%) may be used to meet the government's ongoing obligations to citizens and creditors.

	The Town's Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 16,213,630	\$ 14,619,032	\$ 27,174,329	\$ 29,118,228	\$ 43,387,959	\$ 43,737,260
Capital assets	47,804,805	43,686,969	60,490,966	57,497,797	108,295,771	101,184,766
Total assets	64,018,435	58,306,001	87,665,295	86,616,025	151,683,730	144,922,026
Deferred Outflows of Resources	98,129	-	169,895	-	268,024	-
Long-term liabilities	19,201,053	16,313,573	33,084,220	33,155,385	52,285,273	49,468,958
Current liabilities	3,410,952	2,533,225	3,563,919	2,584,178	6,974,871	5,117,403
Total liabilities	22,612,005	18,846,798	36,648,139	35,739,563	59,260,144	54,586,361
Net position						
Net investment in capital assets	35,443,423	36,140,412	27,911,757	25,137,877	63,355,180	61,278,289
Restricted	1,438,266	1,303,598	-	-	1,438,266	1,303,598
Unrestricted	4,622,870	2,015,193	23,275,294	25,738,585	27,898,164	27,753,778
Total net position	\$ 41,504,559	\$ 39,459,203	\$ 51,187,051	\$ 50,876,462	\$ 92,691,610	\$ 90,335,665

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

The Town's net position increased by \$2,355,945 during the current fiscal year. The key elements of this change are related to higher departmental expenses, offset with more interest earned on investments and more grant money received during the fiscal year.

Governmental Activities – Governmental activities increased the Town's net position by \$2,045,356. Key elements of this increase are as follows:

- More grant revenue was received from the State and the Federal Government.
- More revenues from taxes.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

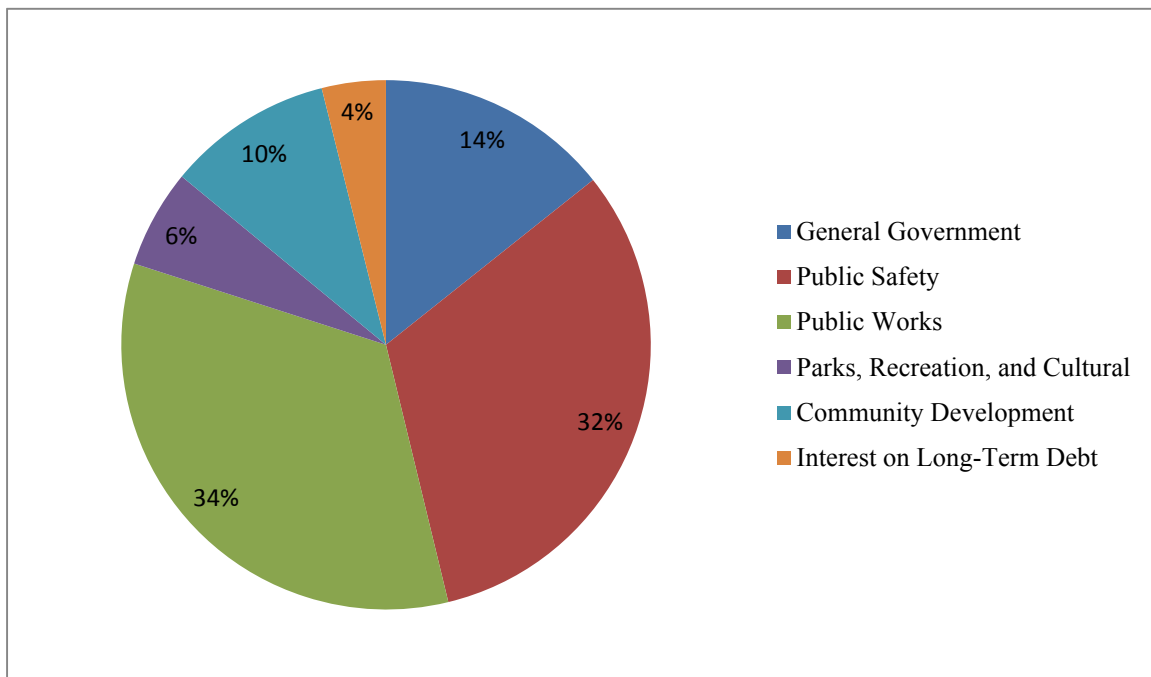
Government-Wide Financial Analysis (Continued)

Business-type Activities – Business-type activities increased the Town's net position by \$310,589. Key elements of this increase are as follows:

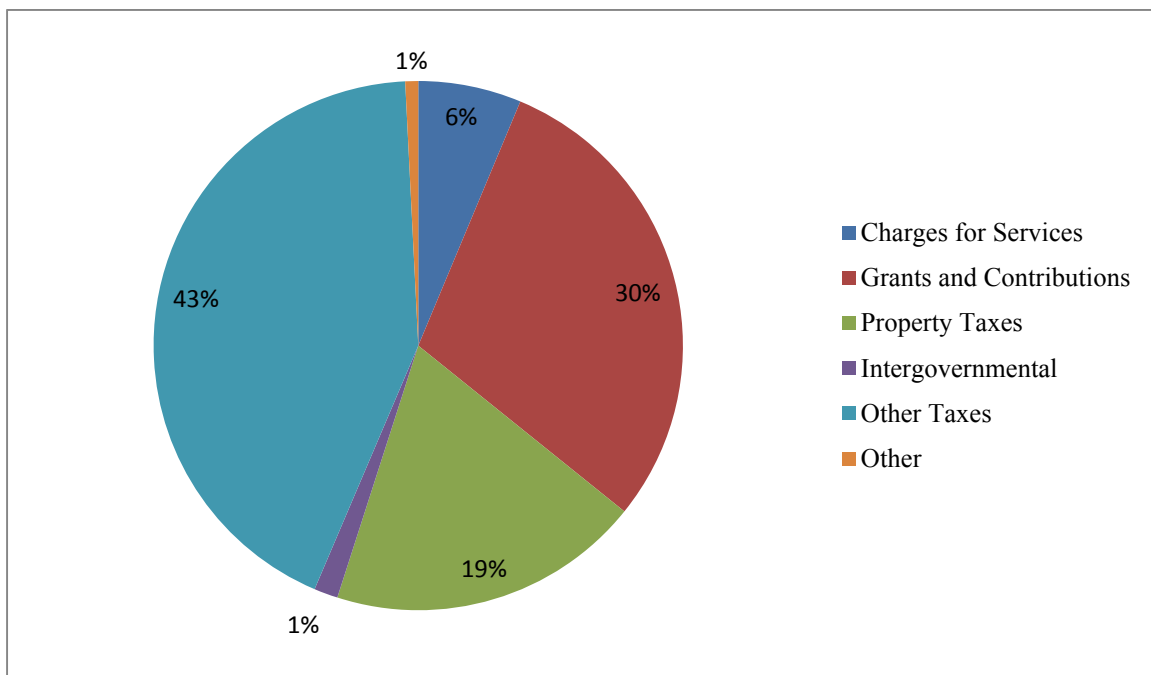
- Capital grants and contributions;
- Insurance recoveries; and
- Lower wastewater departmental expenses.

	The Town's Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$ 1,004,781	\$ 1,040,152	\$ 20,774,121	\$ 19,341,539	\$ 21,778,902	\$ 20,381,691
Operating grants and contributions	2,400,103	2,088,055	-	-	2,400,103	2,088,055
Capital grants and contributions	2,292,433	959,384	818,910	22,000	3,111,343	981,384
General revenues						
Property taxes	3,052,885	2,905,805	-	-	3,052,885	2,905,805
Other taxes	6,817,547	5,924,205	-	-	6,817,547	5,924,205
Intergovernmental revenue unrestricted	231,885	231,473	-	-	231,885	231,473
Investment earnings	20,845	25,279	37,648	46,910	58,493	72,189
Insurance recoveries			447,114		447,114	
Other	103,546	754,774	-	-	103,546	754,774
Total revenues	15,924,025	13,929,127	22,077,793	19,410,449	38,001,818	33,339,576
Expenses						
General government	2,069,656	1,820,939	-	-	2,069,656	1,820,939
Public safety	4,620,506	4,355,486	-	-	4,620,506	4,355,486
Public works	4,882,783	3,927,287	-	-	4,882,783	3,927,287
Parks, recreation, and cultural	869,890	952,084	-	-	869,890	952,084
Community development	1,463,571	1,448,109	-	-	1,463,571	1,448,109
Non-departmental			-	-		
Interest on long-term debt	567,245	529,532	-	-	567,245	529,532
Water	-	-	3,947,082	3,173,641	3,947,082	3,173,641
Wastewater	-	-	5,401,822	5,438,022	5,401,822	5,438,022
Electric	-	-	11,823,318	10,592,276	11,823,318	10,592,276
Total expenses	14,473,651	13,033,437	21,172,222	19,203,939	35,645,873	32,237,376
Excess (deficiency) before transfers	1,450,374	895,690	905,571	206,510	2,355,945	1,102,200
Transfers	594,982	573,758	(594,982)	(573,758)	-	-
Change in net position	2,045,356	1,469,448	310,589	(367,248)	2,355,945	1,102,200
Net position – July 1, as restated	39,459,203	27,378,575	50,876,462	51,696,677	90,335,665	79,075,252
Net position – June 30	\$41,504,559	\$28,848,023	\$51,187,051	\$51,329,429	\$92,691,610	\$80,177,452
Add: Prior period adjustments		10,611,180		(452,967)		10,158,213
Adjusted net position – June 30		39,459,203		50,876,462		90,335,665

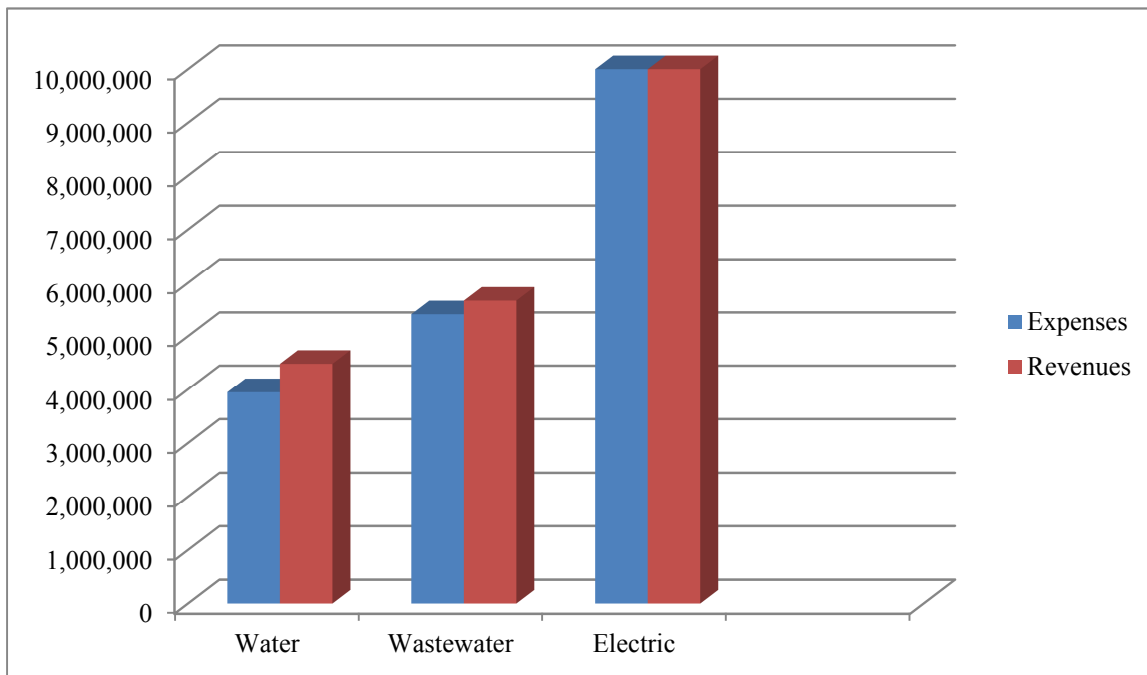
Expenses – Governmental Activities



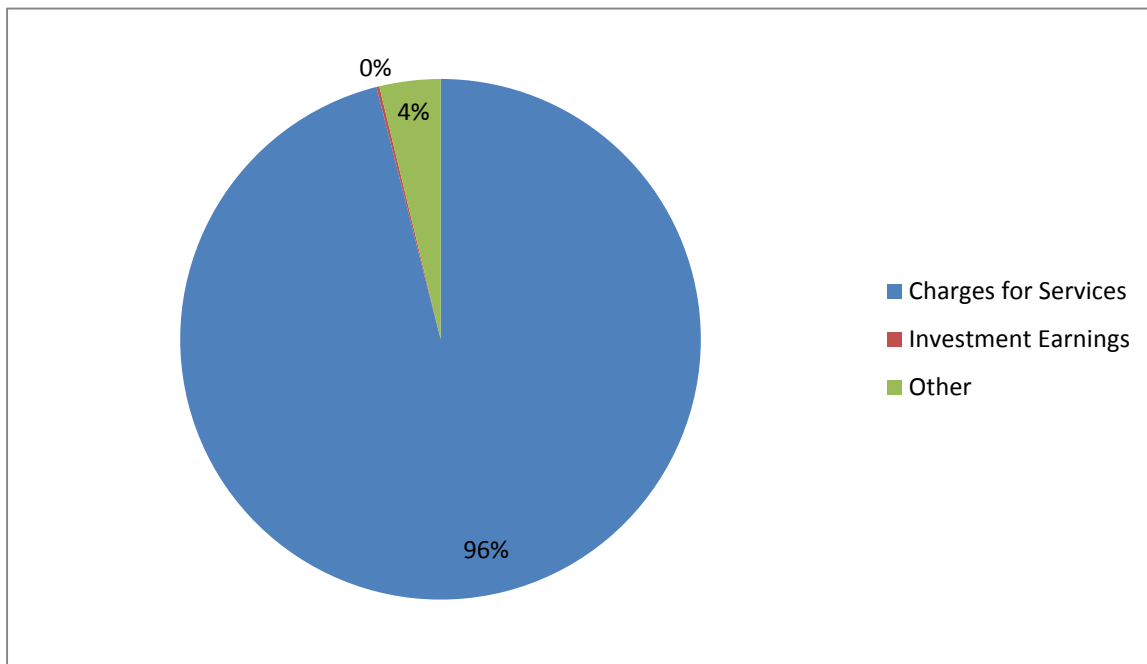
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$12,602,707, an increase of \$994,269 over the prior year. \$4,726,934 of the fund balance is *unassigned*. With the newly established reserve policy, \$4.5M of this amount has been committed for reserves and only \$226,934 will be available for spending at the Town's discretion. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been designated.

As a measure of the governmental fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23% of total governmental fund expenditures, while total fund balance represents 63% of that same amount.

The Town's general fund balance increased \$994,269 in FY2014. The primary reason behind this increase is:

- General obligation bonds were received in the amount of \$3,676,500 to pay for committed capital projects.

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

Unrestricted net position of the water fund at the end of the year equaled \$16,448,159; the wastewater fund equaled \$4,521,001; and the unrestricted net position for the electric fund amounted to \$2,306,134. The total increase in net position was \$310,589. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$9,567,171 (Exhibit 12). Highlights of amounts carried forward to FY 14 from FY 13 are as follows:

- Approximately \$3.1 M for Route 229 Widening/Roundabout construction;
- \$1.5 M for Western Inner Loop Roadway project; and
- Remainder for various incomplete projects (way finding and sign plan, sidewalks and trails, etc.)

General Fund Budgetary Highlights (Continued)

Differences between the final amended budget and actual amounts are \$14,002,166 as highlighted below:

- Minimal was spent on General Fund Projects for FY14 because projects were not started as expected, or were not completed in FY14 as expected creating a difference of \$10,710,313 between final budget numbers and actual (Exhibit 12)
- The Parks, Recreation, and Cultural departments minimized expenses for the year creating a variance of \$110,460 between final budget and actual.
- \$3,648,000 of a \$4,796,000 bond issuance was allocated to the general fund with the balance to the proprietary funds.

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, 2014, amounts to \$108,295,771 (net of accumulated depreciation). 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 6.2% (an 8.6% increase for governmental activities and a 4.4% increase for business-type activities). FY13 infrastructure was restated to include prior years donated infrastructure in the amount of \$10,928,262.

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

	The Town’s Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,897,060	\$ 1,070,196	\$ 1,356,144	\$ 1,340,731	\$ 3,253,204	\$ 2,410,927
Buildings and improvements	22,387,155	21,678,053	97,652,719	96,159,796	120,039,874	117,837,849
Machinery and equipment	7,247,666	6,480,154	8,796,870	6,940,019	16,044,536	13,420,173
Infrastructure	47,201,770	46,225,391	-	-	47,201,770	46,225,391
Construction in progress	6,264,058	3,523,319	4,767,602	2,496,688	11,031,660	6,020,007
Less accumulated depreciation	(37,192,904)	(34,973,062)	(52,082,369)	(48,986,470)	(89,275,273)	(83,959,532)
Total	\$ 47,804,805	\$ 44,004,051	\$ 60,490,966	\$ 57,950,764	\$ 108,295,771	\$ 101,954,815

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

Economic Factors

- Overall tax receipts related to core business continue to show strength and moderate growth.
- All tax receipts (real estate, personal property, local sales, meals and lodging) show increases.
- New businesses over the past year showed signs of strengthening of local economy over the previous fiscal year. The new businesses include Sports Authority, Dicks, Panera Bread, and Chipotle.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of \$51,206,702. This amount is comprised of debt backed by the full faith and credit of the government.

	The Town's Outstanding Debt					
	General Obligation Bonds					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 17,759,190	\$ 15,016,426	\$ 31,965,988	\$ 32,364,574	\$ 49,725,178	\$ 47,381,000
Other obligations payable	-	-	212,707	67,430	212,707	67,430
Bond premium	698,408	742,058	570,409	605,766	1,268,817	1,347,824
Total	<u>\$ 18,457,598</u>	<u>\$ 15,758,484</u>	<u>\$ 32,749,104</u>	<u>\$ 33,037,770</u>	<u>\$ 51,206,702</u>	<u>\$ 48,796,254</u>

The Town's total debt increased by \$2,410,448 or 4.9% during the current fiscal year due to the Town's issuance of \$4,796,000 in General Obligation Public Improvement Bond in 2013 and scheduled debt payoff.

In FY2013 the Town had a rating upgrade from an AA- to an AA rating from Standard & Poor's and Moody's for its outstanding general obligation debt, affirming the Town's stable financial outlook.

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	Industrial Development Authority
ASSETS				
Cash and cash equivalents (Note 2)	\$ 5,947,688	\$ 23,149,689	\$ 29,097,377	\$ 79,522
Receivables, net (Note 3)	643,830	2,773,583	3,417,413	-
Notes receivable (Note 3)	50,000	-	50,000	1,011,311
Due from Fiduciary Fund (Note 4)	39,736	-	39,736	-
Due from other governmental units (Note 5)	1,561,566	9,377	1,570,943	-
Inventories	-	1,209,305	1,209,305	-
Cash and cash equivalents, restricted (Note 2)	7,884,373	-	7,884,373	50,667
Prepays	86,437	32,375	118,812	-
Capital assets: (Note 6)				-
Nondepreciable	8,161,118	6,123,746	14,284,864	-
Depreciable, net	39,643,687	54,367,220	94,010,907	-
Total assets	64,018,435	87,665,295	151,683,730	1,141,500
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	98,129	169,895	268,024	-
Total deferred outflows of resources	98,129	169,895	268,024	-
LIABILITIES				
Accounts payable and accrued liabilities	1,366,109	1,865,029	3,231,138	-
Accrued payroll and related liabilities	481,424	220,840	702,264	-
Accrued interest payable	220,241	431,737	651,978	26,275
Bonds and security deposits	1,343,178	1,046,313	2,389,491	-
Noncurrent liabilities: (Note 8)				
Due within one year	1,576,255	1,937,600	3,513,855	13,057
Due in more than one year	17,624,798	31,146,620	48,771,418	1,011,312
Total liabilities	22,612,005	36,648,139	59,260,144	1,050,644
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue (Note 7)	-	-	-	8,297
Total deferred inflows of resources	-	-	-	8,297
NET POSITION				
Net investment in capital assets	35,443,423	27,911,757	63,355,180	-
Restricted:				
Unspent grant proceeds and asset seizure funds	274,737	-	274,737	-
Proffers	460,030	-	460,030	-
Cemetery fund-nonexpendable	703,499	-	703,499	-
Unrestricted	4,622,870	23,275,294	27,898,164	82,559
Total net position	\$ 41,504,559	\$ 51,187,051	\$ 92,691,610	\$ 82,559

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

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		
							Total	Industrial Development Authority
Governmental activities:								
General government administration	\$ 2,069,656	\$ 53,062	\$ -	\$ -	\$ (2,016,594)	\$ -	\$ (2,016,594)	\$ -
Public safety	4,620,506	157,238	326,811	-	(4,136,457)	-	(4,136,457)	-
Public works	4,882,783	322,027	2,035,262	2,292,433	(233,061)	-	(233,061)	-
Parks, recreation, and cultural	869,890	430,869	8,000	-	(431,021)	-	(431,021)	-
Community development	1,463,571	41,585	30,030	-	(1,391,956)	-	(1,391,956)	-
Interest on long-term debt	567,245	-	-	-	(567,245)	-	(567,245)	-
Total governmental activities	14,473,651	1,004,781	2,400,103	2,292,433	(8,776,334)	-	(8,776,334)	-
Business-type activities:								
Water	3,947,082	4,102,902	-	378,360	-	534,180	534,180	
Wastewater	5,401,822	5,227,134	-	440,550	-	265,862	265,862	
Electric	11,823,318	11,444,085	-	-	-	(379,233)	(379,233)	
Total business-type activities	21,172,222	20,774,121	-	818,910	-	420,809	420,809	
Total primary government	\$ 35,645,873	\$ 21,778,902	\$ 2,400,103	\$ 3,111,343	(8,776,334)	420,809	(8,355,525)	
Component Units:								
Industrial development Authority	\$ 146,794	\$ -	\$ 120,114	\$ -	-	-	-	(26,680)
Total component unit	\$ 146,794	\$ -	\$ 120,114	\$ -	-	-	-	(26,680)
General revenues:								
Property taxes					3,052,885	-	3,052,885	-
Meals tax					3,362,648	-	3,362,648	-
Sales tax					1,409,401	-	1,409,401	-
Business license tax					1,044,986	-	1,044,986	-
Bank stock tax					305,972	-	305,972	-
Cigarette tax					173,094	-	173,094	-
Hotel and motel room tax					328,032	-	328,032	-
Other local taxes					193,414	-	193,414	-
Intergovernmental revenue, unrestricted					231,885	-	231,885	-
Unrestricted investment earnings					20,845	37,648	58,493	-
Restricted investment earnings					-	-	-	26,275
Other					103,546	-	103,546	-
Insurance recovery					-	447,114	447,114	-
Transfers (Note 4)					594,982	(594,982)	-	-
Total general revenues, special item, and transfers					10,821,690	(110,220)	10,711,470	26,275
Change in net position					2,045,356	310,589	2,355,945	(405)
NET POSITION AT JULY 1, AS RESTATED (Note 10)					39,459,203	50,876,462	90,335,665	82,964
NET POSITION AT JUNE 30					\$ 41,504,559	\$ 51,187,051	\$ 92,691,610	\$ 82,559

TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
ASSETS			
Cash and cash equivalents	\$ 5,244,189	\$ 703,499	\$ 5,947,688
Receivables, net (Note 3)	643,830	-	643,830
Due from fiduciary fund	39,736	-	39,736
Due from other governmental units (Note 5)	1,561,566	-	1,561,566
Cash and cash equivalents, restricted	7,884,373	-	7,884,373
Prepays	86,437	-	86,437
Total assets	<u>\$ 15,460,131</u>	<u>\$ 703,499</u>	<u>\$ 16,163,630</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,366,109	\$ -	\$ 1,366,109
Accrued payroll and related liabilities	481,424	-	481,424
Bonds and security deposits	1,343,178	-	1,343,178
Total liabilities	<u>3,190,711</u>	<u>-</u>	<u>3,190,711</u>
Deferred inflows of resources:			
Unavailable revenue (Note 7)	370,212	-	370,212
Total deferred inflows of resources	<u>370,212</u>	<u>-</u>	<u>370,212</u>
Fund balances: (Note 9)			
Nonspendable	86,437	703,499	789,936
Restricted	6,732,852	-	6,732,852
Assigned	352,985	-	352,985
Unassigned	4,726,934	-	4,726,934
Total fund balances	<u>11,899,208</u>	<u>703,499</u>	<u>12,602,707</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,460,131</u>	<u>\$ 703,499</u>	<u>\$ 16,163,630</u>

TOWN OF CULPEPER, VIRGINIA

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

June 30, 2014

Total Fund Balances – Governmental Funds	\$ 12,602,707
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Amounts reported for governmental activities in the statement of net position are different because:

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

Nondepreciable	\$ 8,161,118	
Depreciable, net	<u>39,643,687</u>	
		47,804,805

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 \$873,009 and		
accumulated amortization of \$174,601	(698,408)	
Deferred loss on refunding total \$141,741 and		
accumulated amortization of \$43,612	<u>98,129</u>	(600,279)

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.	370,212
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A note receivable is not available to pay for current-period expenditures and therefore is deferred in the funds.	50,000
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(17,759,190)	
Accrued interest payable	(220,241)	
Other post-employment benefits	(148,644)	
Compensated absences	<u>(594,811)</u>	
		<u>(18,722,886)</u>

Total Net Position – Governmental Activities	<u><u>\$ 41,504,559</u></u>
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TOWN OF CULPEPER, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	General Fund	Permanent Fund Cemetery Perpetual Care	Total
REVENUES			
General property taxes	\$ 3,052,885	\$ -	\$ 3,052,885
Other local taxes	6,799,925	-	6,799,925
Permits, privilege fees, and regulatory licenses	304,884	-	304,884
Fines and forfeitures	103,206	-	103,206
Revenues from use of money and property	210,104	879	210,983
Charges for services	229,904	63,916	293,820
Other	216,950	-	216,950
Recovered costs	1,835,240	-	1,835,240
Intergovernmental	3,953,986	-	3,953,986
Total revenues	16,707,084	64,795	16,771,879
EXPENDITURES			
Current:			
General government administration	3,190,149	-	3,190,149
Public safety	4,290,573	-	4,290,573
Public works	3,330,713	-	3,330,713
Parks, recreation, and cultural	828,728	-	828,728
Community development	1,435,055	-	1,435,055
Capital projects	5,466,703	-	5,466,703
Debt service:			
Principal retirement	933,736	-	933,736
Interest and fiscal charges	520,199	-	520,199
Bond issuance costs	53,236	-	53,236
Total expenditures	20,049,092	-	20,049,092
Excess (deficiency) of revenues over expenditures	(3,342,008)	64,795	(3,277,213)
OTHER FINANCING SOURCES			
Issuance of general obligation bonds	3,676,500	-	3,676,500
Transfers in (Note 4)	594,982	-	594,982
Total other financing sources	4,271,482	-	4,271,482
Net change in fund balances	929,474	64,795	994,269
FUND BALANCES AT JULY 1. AS RESTATED (Note 10)	10,969,734	638,704	11,608,438
FUND BALANCES AT JUNE 30	<u>\$ 11,899,208</u>	<u>\$ 703,499</u>	<u>\$ 12,602,707</u>

TOWN OF CULPEPER, VIRGINIA

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

Year Ended June 30, 2014

Net Change in Fund Balances – Governmental Funds	\$	994,269
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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 capital outlays of \$5,049,451 exceeded depreciation expense of \$2,219,842 in the current period.

2,829,609

Governmental funds do not report contributions of capital assets that will be used in operations because they are not relevant to the assessment of near-term liquidity.

970,845

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

66,541

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 issuance costs, 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	\$	933,736
Proceeds from bonds		(3,676,500)
Changes in bond premiums		43,650
Changes in loss on refunding		(10,903)
		(2,710,017)

(2,710,017)

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

Change in compensated absences		(54,486)
Change in other post-employment benefits		(24,848)
Change in accrued interest payable		(26,557)
		(105,891)

(105,891)

Change in Net Position – Governmental Activities	\$	2,045,356
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TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2014**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,992,479	\$ 4,474,748	\$ 1,682,462	\$ 23,149,689
Receivables, net (Note 3)	396,426	483,993	1,893,164	2,773,583
Due from other governmental units (Note 5)	-	9,377	-	9,377
Prepays	10,470	11,312	10,593	32,375
Inventories	342,838	108,303	758,164	1,209,305
Total current assets	17,742,213	5,087,733	4,344,383	27,174,329
Noncurrent assets:				
Capital assets: (Note 6)				
Nondepreciable	5,266,398	115,012	742,336	6,123,746
Depreciable, net	7,481,241	37,818,633	9,067,346	54,367,220
Total noncurrent assets	12,747,639	37,933,645	9,809,682	60,490,966
Total assets	30,489,852	43,021,378	14,154,065	87,665,295
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	79,495	69,653	20,747	169,895
Total deferred outflows of resources	79,495	69,653	20,747	169,895
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	837,108	107,224	920,697	1,865,029
Accrued payroll and related liabilities	77,705	68,022	75,113	220,840
Accrued interest payable	70,918	289,589	71,230	431,737
Customer security deposits	205,733	-	840,580	1,046,313
Current portion of long-term debt (Note 8)	505,741	809,027	405,295	1,720,063
Compensated absences (Note 8)	65,197	62,382	89,958	217,537
Total current liabilities	1,762,402	1,336,244	2,402,873	5,501,519
Noncurrent liabilities:				
Long-term debt (Note 8)	6,888,608	18,480,407	5,660,026	31,029,041
Other post-employment benefits (Note 16)	21,094	23,920	18,181	63,195
Compensated absences (Note 8)	16,299	15,595	22,490	54,384
Total noncurrent liabilities	6,926,001	18,519,922	5,700,697	31,146,620
Total liabilities	8,688,403	19,856,166	8,103,570	36,648,139
NET POSITION				
Net investment in capital assets	5,432,785	18,713,864	3,765,108	27,911,757
Unrestricted	16,448,159	4,521,001	2,306,134	23,275,294
Total net position	\$ 21,880,944	\$ 23,234,865	\$ 6,071,242	\$ 51,187,051

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 3,164,123	\$ 3,891,265	\$ 11,388,444	18,443,832
Penalties	34,441	34,441	35,487	104,369
Other	61,682	23,428	20,154	105,264
Total operating revenues	3,260,246	3,949,134	11,444,085	18,653,465
OPERATING EXPENSES				
Water treatment	1,947,307	-	-	1,947,307
Wastewater collection	-	477,891	-	477,891
Wastewater treatment	-	2,751,256	-	2,751,256
Transmission and distribution	700,941	-	1,344,935	2,045,876
Power purchased (Note 12)	-	-	8,371,645	8,371,645
Administration	-	-	879,582	879,582
Other	395,571	5,940	118,036	519,547
Depreciation	719,104	1,426,002	950,428	3,095,534
Total operating expenses	3,762,923	4,661,089	11,664,626	20,088,638
Operating loss	(502,677)	(711,955)	(220,541)	(1,435,173)
NONOPERATING REVENUES (EXPENSES)				
Interest income	26,542	8,140	2,966	37,648
Interest expense	(184,159)	(750,103)	(158,692)	(1,092,954)
Gain on disposal of capital assets	-	9,370	-	9,370
Tap fees	842,656	1,278,000	-	2,120,656
Net nonoperating revenue (expenses)	685,039	545,407	(155,726)	1,074,720
Income (loss) before capital contributions, insurance recovery and transfers	182,362	(166,548)	(376,267)	(360,453)
CAPITAL CONTRIBUTIONS	378,360	440,550	-	818,910
INSURANCE RECOVERY	-	-	447,114	447,114
TRANSFERS OUT (Note 4)	(92,431)	(110,200)	(392,351)	(594,982)
Change in net position	468,291	163,802	(321,504)	310,589
NET POSITION AT JULY 1, AS RESTATED (Note 10)	21,412,653	23,071,063	6,392,746	50,876,462
NET POSITION AT JUNE 30	\$ 21,880,944	\$ 23,234,865	\$ 6,071,242	\$ 51,187,051

TOWN OF CULPEPER, VIRGINIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water	Wastewater	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 3,276,249	\$ 3,939,687	\$ 11,079,542	\$ 18,295,478
Payments to suppliers	(1,982,480)	(1,917,768)	(9,177,060)	(13,077,308)
Payments to employees	(1,115,524)	(1,244,733)	(1,492,105)	(3,852,362)
Net cash provided by operating activities	178,245	777,186	410,377	1,365,808
NONCAPITAL FINANCING ACTIVITIES				
Insurance recovery	-	-	447,114	447,114
Interfund transfers	(92,431)	(110,200)	(392,351)	(594,982)
Net cash provided by (used in) noncapital financing activities	(92,431)	(110,200)	54,763	(147,868)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bond issuance	1,119,500	-	-	1,119,500
Purchases of capital assets	(2,405,644)	(212,500)	(1,144,755)	(3,762,899)
Principal paid on capital debt	(464,587)	(793,625)	(327,262)	(1,585,474)
Capital grant	22,000	(9,377)	-	12,623
Tap fees collected	842,656	1,278,000	-	2,120,656
Interest paid on capital debt	(253,027)	(755,522)	(140,408)	(1,148,957)
Net cash used in capital and related financing activities	(1,139,102)	(493,024)	(1,612,425)	(3,244,551)
INVESTING ACTIVITIES				
Interest received	26,542	8,140	2,966	37,648
Net cash provided by investing activities	26,542	8,140	2,966	37,648
Net increase (decrease) in cash and cash equivalents	(1,026,746)	182,102	(1,144,319)	(1,988,963)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	18,019,225	4,292,646	2,826,781	25,138,652
Ending at June 30	\$ 16,992,479	\$ 4,474,748	\$ 1,682,462	\$ 23,149,689
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating loss	\$ (502,677)	\$ (711,955)	\$ (220,541)	\$ (1,435,173)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	719,104	1,426,002	950,428	3,095,534
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	4,131	(9,447)	(416,279)	(421,595)
Inventories	(120,916)	(8,681)	(55,496)	(185,093)
Prepays	15,780	34,462	21,889	72,131
(Decrease) increase in:				
Accounts payable and accrued liabilities	46,265	60,009	79,994	186,268
Accrued payroll and related liabilities	2,131	(7,485)	(16,767)	(22,121)
Customer security deposits	11,872	-	51,736	63,608
Other post-employment benefits	4,105	4,106	2,593	10,804
Compensated absences	(1,550)	(9,825)	12,820	1,445
Net cash provided by operating activities	\$ 178,245	\$ 777,186	\$ 410,377	\$ 1,365,808
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 668,239	\$ 30,355	\$ 55,078	\$ 753,672
Capital lease	\$ -	\$ -	\$ 212,665	\$ 212,665
Capital contribution from developer	\$ 378,360	\$ 440,550	\$ -	\$ 818,910
Capitalized interest	\$ 74,704	\$ -	\$ 20,086	\$ 94,790

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION
 AGENCY FUND
 June 30, 2014

**Parking
 Authority**

ASSETS

Cash and cash equivalents	\$ 2,604
Receivables, net	6,059
Future amounts to be collected to liquidate liabilities	<u>37,667</u>
Total assets	<u><u>\$ 46,330</u></u>

LIABILITIES

Accounts payable	\$ 6,594
Due to general fund	<u>39,736</u>
Total liabilities	<u><u>\$ 46,330</u></u>

TOWN OF CULPEPER, VIRGINIA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - PARKING AUTHORITY
June 30, 2014

	Balances July 1, 2013	Additions	Deductions	Balances June 30, 2014
ASSETS				
Cash and cash equivalents	\$ 8,624	47,669	53,689	\$ 2,604
Receivables	2,111	3,948	-	6,059
Future amounts to be collected to liquidate liabilities	29,001	8,666		37,667
Total assets	<u>\$ 39,736</u>	<u>\$ 60,283</u>	<u>\$ 53,689</u>	<u>\$ 46,330</u>
LIABILITIES				
Accounts payable	\$ -	\$ 6,594	\$ -	\$ 6,594
Due to general fund	39,736	-	-	39,736
Total liabilities	<u>\$ 39,736</u>	<u>\$ 6,594</u>	<u>\$ -</u>	<u>\$ 46,330</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

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

Discretely Presented Component Unit:

The 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 the component unit because they approve the budget and must approve any debt issuances. The component unit is governmental in nature. The statements are shown in their entirety in the government-side statements. It does not issue a separate financial report.

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

Fiduciary Fund:

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

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 considers revenues to be available if they are collected within 45 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary funds:

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

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

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

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

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

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

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

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

E. Cash and Cash Equivalents

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

F. Allowance for Uncollectible Accounts

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

G. Inventories

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

H. Capital Assets

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$94,790 in interest expense was included as part of the cost of capital assets under construction.

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

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

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

I. Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has one such item, *unavailable/unearned revenue*. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 day of year-end and property taxes collected in advance but levied to fund future years. The 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 \$2,000. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental funds only when the amounts are due and payable.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

K. Long-Term Obligations

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

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

L. Fund Balances

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

The classifications are as follows:

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

M. 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.

N. 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 forty percent of expenditures.

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

O. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. General fund encumbrances are \$5,019,556 as of June 30.

P. Estimates

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

Note 2. Deposits and Investments

Deposits

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

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

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

Type	Fair Value	Credit Rating	Percent of Portfolio
Primary Government:			
Demand deposits	\$ 18,681,597	NA	50.52 %
SNAP	5,998,087	AAAm	16.22 %
LGIP	12,302,066	AAAm	33.26 %
Primary government investments	<u>\$ 36,981,750</u>		100.00 %
Component Unit – IDA:			
Demand deposits	<u>\$ 79,522</u>	NA	100.00 %
Fiduciary Fund – Parking Authority:			
Demand deposits	<u>\$ 2,604</u>	NA	100.00 %
Primary Government reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 29,097,377		
Cash and cash equivalents, restricted	7,884,373		
Total deposits and investments	<u>\$ 36,981,750</u>		

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

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

Concentration of Credit Risk:

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

Interest Rate Risk:

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

Custodial Credit Risk:

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

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for performance bonds of \$1,151,519, unspent bond proceeds of \$5,998,087, proffers of \$460,030, and \$274,737 of unspent grant proceeds and asset seizure funds.

In addition, the IDA held restricted cash for payments made by the Salem Volunteer Fire Department, in the amount of \$50,667. These funds will be used towards the IDA’s payment on their Rural Development loan described in more detail in Notes 3 and 7.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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	\$ 510,467	\$ -	\$ -	\$ -	\$ 510,467
Accounts	<u>370,637</u>	<u>412,136</u>	<u>506,588</u>	<u>1,931,514</u>	<u>3,220,875</u>
Gross receivables	881,104	412,136	506,588	1,931,514	3,731,342
Less: allowance for uncollectibles	<u>(237,274)</u>	<u>(15,710)</u>	<u>(22,595)</u>	<u>(38,350)</u>	<u>(313,929)</u>
Receivables, net	<u>\$ 643,830</u>	<u>\$ 396,426</u>	<u>\$ 483,993</u>	<u>\$ 1,893,164</u>	<u>\$ 3,417,413</u>

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

Industrial Development Authority:

In September 2012, the Industrial Development Authority (IDA), obtained a loan through Rural Development on behalf of the Salem Volunteer Fire Department. The loan was used to pay down a loan the Fire Department acquired in 2006 to construct and equip a fire station. The IDA is leasing the property back to the fire department for annual rent of \$47,630, which represents the principal and interest due on the loan each year. The lease is considered a financing lease. This amount has been recorded as a note receivable and had a balance of \$1,011,311 at June 30, 2014. The County of Culpeper has provided a moral obligation to pay any amounts due the IDA should the Fire Department be unable to meet their 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>
2015	\$ 13,498	\$ 34,132
2016	13,954	33,676
2017	14,425	33,205
2018	14,912	32,718
2019	15,415	32,215
2020-2024	85,238	152,912
2025-2029	100,626	137,524
2030-2034	118,793	119,357
2035-2039	140,238	97,912
2040-2044	165,556	72,594
2045-2049	195,444	42,706
2050-2054	<u>133,212</u>	<u>9,071</u>
	<u>\$ 1,011,311</u>	<u>\$ 798,022</u>

(Continued)

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Interfund Transfers and Due from Fiduciary Funds

Amounts due from fiduciary funds:

The Parking Authority owed the general fund and governmental activities \$39,736 at year end for prior year borrowings from the pooled funds account.

Interfund transfers are as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
Water	General	\$ 92,431
Wastewater	General	110,200
Electric	General	392,351
		<u>\$ 594,982</u>

The primary purpose of these transfers 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)		\$ 245,329
Federal and Commonwealth of Virginia:		
FEMA (General Fund)		99,236
VDOT (General Fund)		1,189,547
Other (General Fund)		27,454
Other (Wastewater Fund)		9,377
		<u>\$ 1,570,943</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Capital Assets

The Town early implemented GASB 69, *Government Combinations and Disposals of Government Operations* in 2013, due to the annexation of Town roads from the Virginia Department of Transportation.

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance, As restated (Note 10)	Increases	Transfers	Ending Balance
Capital assets, not depreciated:				
Land	\$ 1,070,196	\$ 826,864	\$ -	\$ 1,897,060
Construction in progress	3,523,319	2,918,804	(178,065)	6,264,058
Total capital assets, not depreciated	4,593,515	3,745,668	(178,065)	8,161,118
Capital assets, depreciated:				
Buildings and improvements	21,678,053	531,037	178,065	22,387,155
Machinery and equipment	6,480,154	767,512	-	7,247,666
Infrastructure	46,225,391	976,379	-	47,201,770
Total capital assets, depreciated	74,383,598	2,274,928	178,065	76,836,591
Less accumulated depreciation:				
Buildings and improvements	10,063,511	523,481	-	10,586,992
Machinery and equipment	4,647,968	463,701	-	5,111,669
Infrastructure	20,261,583	1,232,660	-	21,494,243
Total accumulated depreciation	34,973,062	2,219,842	-	37,192,904
Net capital assets, depreciated	39,410,536	55,086	178,065	39,643,687
Governmental activities capital assets, net	\$ 44,004,051	\$ 3,800,754	\$ -	\$ 47,804,805

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Capital Assets (Continued)

Business-Type Activities	Beginning Balance, As restated (Note 10)	Increases	Transfer	Ending Balance
Capital assets, not depreciated:				
Land	\$ 1,340,732	\$ 15,412	\$ -	\$ 1,356,144
Construction in progress	2,496,688	3,175,450	(904,536)	4,767,602
Total capital assets, not depreciated	3,837,420	3,190,862	(904,536)	6,123,746
Capital assets, depreciated:				
Buildings and improvements	96,184,061	1,135,008	333,650	97,652,719
Machinery and equipment	6,940,019	1,285,965	570,886	8,796,870
Total capital assets, depreciated	103,124,080	2,420,973	904,536	106,449,589
Less accumulated depreciation:				
Buildings and improvements	46,120,918	2,490,954	-	48,611,872
Machinery and equipment	2,865,917	604,580	-	3,470,497
Total accumulated depreciation	48,986,835	3,095,534	-	52,082,369
Net capital assets, depreciated	54,137,245	(674,561)	904,536	54,367,220
Business-type activities capital assets, net	<u>\$ 57,974,665</u>	<u>\$ 2,516,301</u>	<u>\$ -</u>	<u>\$ 60,490,966</u>

Depreciation expense was charged to functions/programs as follows:

Primary Government – Governmental Activities

General government administration	\$ 367,017
Public safety	315,729
Public works	1,474,973
Parks, recreation, and cultural	44,959
Community development	17,164
Total governmental activities	<u>\$ 2,219,842</u>

Primary Government – Business-Type Activities

Water	\$ 719,104
Wastewater	1,426,002
Electric	950,428
Total business-type activities	<u>\$ 3,095,534</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. 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)	\$ -	\$ 8,297
Total unearned revenue	-	8,297
Debt payments received in advance (unavailable)	-	42,370
Uncollected property tax billing (unavailable)	370,212	-
Total unavailable/unearned revenue	<u>\$ 370,212</u>	<u>\$ 50,667</u>

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	\$ 15,016,426	\$ 3,676,500	\$ 933,736	\$ 17,759,190	\$ 1,056,756
Bond premium	742,058	-	43,650	698,408	43,650
Other post-employment benefits	123,796	24,848	-	148,644	-
Compensated absences	540,325	709,003	654,517	594,811	475,849
Governmental activities long-term liabilities	<u>\$ 16,422,605</u>	<u>\$ 4,410,351</u>	<u>\$ 1,631,903</u>	<u>\$ 19,201,053</u>	<u>\$ 1,576,255</u>
Business-Type Activities:					
General obligation bonds	\$ 32,364,574	\$ 1,119,500	\$ 1,518,086	\$ 31,965,988	\$ 1,623,244
Other obligations payable	67,430	212,665	67,388	212,707	62,050
Bond premium	605,766	-	35,357	570,409	34,769
Other post-employment benefits	52,391	10,804	-	63,195	-
Compensated absences	266,203	328,459	322,741	271,921	217,537
Business-Type activities long-term liabilities	<u>\$ 33,356,364</u>	<u>\$ 1,671,428</u>	<u>\$ 1,943,572</u>	<u>\$ 33,084,220</u>	<u>\$ 1,937,600</u>

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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	Governmental Activities	
	General Obligation Bonds	
	Principal	Interest
2015	\$ 1,056,756	\$ 448,659
2016	1,075,013	425,576
2017	1,118,268	398,525
2018	1,155,780	372,027
2019	1,181,036	344,700
2020-2024	6,105,837	1,237,093
2025-2029	4,756,500	351,788
2030-2034	1,310,000	61,525
	<u>\$ 17,759,190</u>	<u>\$ 3,639,893</u>

Year Ended June 30	Business-Type Activities					
	General Obligation Bonds		Other Obligations Payable		Total Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,623,244	\$ 1,109,447	\$ 62,050	\$ 7,428	\$ 1,685,294	\$ 1,116,875
2016	1,670,988	1,058,199	64,169	5,309	1,735,157	1,063,508
2017	1,727,732	1,000,847	42,480	3,114	1,770,212	1,003,961
2018	1,797,220	940,848	44,008	1,584	1,841,228	942,432
2019	1,367,964	877,867	-	-	1,367,964	877,867
2020-2024	7,360,163	3,719,632	-	-	7,360,163	3,719,632
2025-2029	6,563,500	2,605,691	-	-	6,563,500	2,605,691
2030-2034	5,865,000	1,513,201	-	-	5,865,000	1,513,201
2035-2039	3,990,177	454,045	-	-	3,990,177	454,045
	<u>\$ 31,965,988</u>	<u>\$ 13,279,777</u>	<u>\$ 212,707</u>	<u>\$ 17,435</u>	<u>\$ 32,178,695</u>	<u>\$ 13,297,212</u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Long-Term Liabilities (Continued)

Primary Government (Continued)

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
General Obligation Public Improvement and Refunding Bond	4.46%	2002	2018	\$ 8,018,000	\$ -	\$ 1,924,000
General Obligation Public Improvement Bond	3.25% - 4.50%	2008	2038	17,895,000	1,100,000	14,980,000
General Obligation Refunding Bond	2.75%	2010	2030	19,925,000	8,922,690	7,707,310
General Obligation Public Improvement Bond	1.57%	2011	2016	900,000	485,000	-
General Obligation Public Improvement Bond	2.10%	2013	2033	10,000,000	3,575,000	6,280,000
General Obligation Public Improvement Bond	2.33%	2014	2028	4,796,000	3,676,500	1,074,678
					17,759,190	31,965,988
<u>Other Obligations Payable:</u>						
Capital lease	3.10%	2011	2016	\$ 109,073	-	45,635
Capital lease	3.10%	2014	2018	212,665	-	167,072
					-	212,707
Total long-term debt					<u>\$ 17,759,190</u>	<u>\$ 32,178,695</u>

Line of Credit

During 2013, the Town obtained a \$5,000,000 line of credit for the purpose of funding construction costs related to the Inner Loop project while awaiting reimbursement from VDOT. The line bears interest at 1-month LIBOR plus 1.05%. At June 30, 2014, no amounts were outstanding on this line of credit. The line matured on August 1, 2014 at which time all outstanding amounts were due and payable. Subsequent to year end the line maturity was extended to August 1, 2015.

Obligations Under Capital Leases

The Town leased a vehicle and truck under capital leases expiring in 2016 and 2018, respectively. The assets acquired have a cost of \$321,738 and accumulated depreciation of \$63,489, resulting in a net book value of \$258,249.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Long-Term Liabilities (Continued)

Discretely Presented Component Unit:

Industrial Development Authority (Continued)

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	\$ 1,037,000	\$ -	\$ 12,631	\$ 1,024,369	\$ 13,057

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>
2015	13,057	34,572
2016	13,498	34,132
2017	13,954	33,676
2018	14,425	33,205
2019	14,912	32,718
2020-2024	82,455	155,695
2025-2029	97,341	140,809
2030-2034	114,914	123,236
2035-2039	135,659	102,490
2040-2044	160,152	77,999
2045-2049	189,064	49,087
2050-2053	174,938	14,975
	<u>\$ 1,024,369</u>	<u>\$ 832,594</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>Governmental Activities</u>
Rural Development Loan	3.36%	2013	2053	\$ 1,037,000	\$ 1,024,369

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. 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
Nonspendable:		
Prepays	\$ 86,437	\$ -
Cemetery perpetual care	-	703,499
Total nonspendable	86,437	703,499
Restricted for:		
Community development – unused grant proceeds	273,374	-
Capital projects – unused bond proceeds	5,998,086	-
Community development – proffers	460,030	-
Asset seizure funds	1,362	-
Total restricted	6,732,852	-
Assigned to:		
General government administration – unused capital project funds allocated to FY15.	200,382	-
Public Works – Unused capital project funds allocated to FY15	152,603	-
Total assigned	352,985	-
Unassigned	4,726,934	-
Total fund balance	\$ 11,899,208	\$ 703,499

Note 10. Restatement of Fund Balance/Net Position

Beginning net position has been restated to properly reflect amounts in accordance with implementing **GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***. This standard requires the reclassification of items as deferred outflows and inflows that were previously reported as assets and liabilities. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred, except any portion related to prepaid insurance costs. Bond issuance costs that were capitalized as a part of various debt issuances in prior years were required to be retroactively expensed as reflected below.

The Town also adjusted beginning net position and fund balance due to a VRS payment that was not paid in October 2010 and for developer contributions that were not previously recorded.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Restatement of Fund Balance/Net Position (Continued)

	<u>Governmental Activities</u>	<u>General</u>
Net Position, June 30, 2013, as previously stated	\$ 28,848,023	\$ 11,060,453
To record prior year VRS payment error	(90,719)	(90,719)
To record prior years developer contributions	10,928,562	-
To retroactively expense debt issuance costs	<u>(226,663)</u>	<u>-</u>
Net Position, June 30, 2013, as restated	<u><u>\$ 39,459,203</u></u>	<u><u>\$ 10,969,734</u></u>

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Business- Type Activities</u>
Net Position, June 30, 2013, as previously stated	\$ 21,397,683	\$ 23,467,504	\$ 6,464,242	\$ 51,329,429
To record prior years developer contributions	23,900	-	-	23,900
To retroactively expense debt issuance costs	<u>(8,930)</u>	<u>(396,441)</u>	<u>(71,496)</u>	<u>(476,867)</u>
Net Position, June 30, 2013, as restated	<u><u>\$ 21,412,653</u></u>	<u><u>\$ 23,071,063</u></u>	<u><u>\$ 6,392,746</u></u>	<u><u>\$ 50,876,462</u></u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan

Plan Description

The Town of Culpeper contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS PLAN 1

About VRS Plan 1 – VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan 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 VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

VRS 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 1.7%. 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 1.7% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (Continued)

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.

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 for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS 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.

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 – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Disability Coverage for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the 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 VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

- 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:

- State employees*.
- School division employees.
- Political subdivision employees*.
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – 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:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. 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 Contribution 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 of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution 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.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting (Continued)

Distribution is not required by law until age 70½.

Calculating the Benefit

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 VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

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 of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 12.05% of the annual covered payroll.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Town's annual pension cost of \$1,056,133 for VRS was equal to the required and actual contributions.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 1,056,133	100%	\$ -
June 30, 2013	\$ 907,873	100%	\$ -
June 30, 2012	\$ 725,975	100%	\$ -

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 71.55% funded. The actuarial accrued liability for benefits was \$32,691,602, and the actuarial value of assets was \$23,391,350, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,300,252. The covered payroll (annual payroll of active employees covered by the plan) was \$8,077,006, and the ratio of the UAAL to the covered payroll was 115.14%.

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. 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 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 \$8,010,138 for the year ended June 30, 2014. Of these purchases, \$846,326 is included in accounts payable as of June 30, 2014. The Town's new contract provides for periodic true-ups based on actual costs incurred by Dominion Virginia Power. 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. The true-up for the fiscal year ending June 30, 2014 was approximately \$90,000.

Note 13. 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 2013 taxes due January 31, 2014 was \$.13 per \$100 of assessed value. Residents who live in the Southridge, Lafayette Ridge, and Willow Shade districts pay an additional special assessment of \$.15, \$.10, and \$.06 per \$100 of assessed value, respectively. The personal property and business equipment tax rate was \$1.00 per \$100 of assessed value. The machinery and tools tax rate was \$.80 per \$100 of assessed value. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The Town bills and collects its own property taxes.

Note 14. Risk Management

The Risk Management programs of the Town are as follows:

Workers' Compensation

The Town is a member of the Virginia Municipal League (VML) Insurance Programs for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates and claims experience. Total premiums for 2014 were approximately \$139,000.

General Liability and Other

The Town purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from VML Insurance Programs. The Town's property and contents are insured up to a limit of approximately \$77 million. The Town maintains an additional \$10,000,000 umbrella policy over all forms of liability insurance. The Town's Public Officials and Law Enforcement Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the VML Insurance Programs. Total premiums for 2014 were approximately \$205,000.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. Risk Management (Continued)

General Liability and Other (Continued)

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 15. Commitments and Contingencies

Grant Programs

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

Litigation

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

Reservoir Improvement Projects

The Town is required by a regulatory agency to make significant improvements to its reservoirs. The estimate to rehabilitate the reservoirs is \$16.1 million. The Town received two grants totaling \$890,000 to develop rehabilitation plans. The Town believes additional grant funding will be available to complete assist with the design and certain construction phases of the project as well as future issuances of long-term borrowings. The project is scheduled to begin April 1, 2015 and be completed by September 30, 2016.

Obligations Under Operating Leases

The Town leases several vehicles under operating leases expiring in 2016. Minimum lease payments are \$17,376 for each 2015 and 2016. Lease expense in 2014 was \$17,376.

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Other Post-Employment Benefits

Plan Description

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

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

Health benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65. The number of participants at June 30, 2013 was as follows:

Retirees currently receiving benefits	10
Active employees	<u>165</u>
Total	<u><u>175</u></u>

Funding Policy

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

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

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

Annual required contribution	\$ 70,900
Interest on net OPEB obligation	6,167
Adjustment to annual required contribution	<u>(1,479)</u>
Annual OPEB cost	73,252
Contributions made	<u>(37,600)</u>
Increase in net OPEB obligation	35,652
Net OPEB obligation – beginning of year	<u>176,187</u>
Net OPEB obligation – end of year	<u><u>\$ 211,839</u></u>

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Other Post-Employment Benefits (Continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation (Continued)

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 73,252	51.33%	\$ 211,839
June 30, 2013	\$ 70,617	53.24%	\$ 176,187
June 30, 2012	\$ 77,870	40.32%	\$ 143,170

Funding Status and Funding Progress

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

Actuarial Accrued Liability (AAL)	\$ 750,200
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 750,200
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 7,950,900
UAAL as a Percentage of Covered Payroll	9.44 %

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

Actuarial Methods and Assumptions

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

TOWN OF CULPEPER, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

In the June 30, 2013 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the post-retirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.50% rate of return and an initial annual healthcare cost trend of 7.00% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.80%. The unfunded accrued liability is being amortized over 30 years as a level percent of payroll method on an open basis. Payroll and inflation is assumed to increase 3.00% per annum. The remaining amortization period at June 30, 2013 is 30 years.

Note 17. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension 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 pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

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

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**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 3,391,300	\$ 3,391,300	\$ 3,052,885	\$ (338,415)
Local sales and use taxes	1,300,000	1,300,000	1,392,860	92,860
Business license tax	1,001,000	1,001,000	1,044,986	43,986
Franchise license tax	117,120	117,120	123,331	6,211
Bank stock tax	292,000	292,000	305,972	13,972
Cigarette tax	176,000	176,000	173,094	(2,906)
Hotel and motel room tax	280,000	280,000	328,032	48,032
Food and beverage tax	3,100,000	3,100,000	3,362,648	262,648
Local consumption tax	61,000	61,000	69,002	8,002
Permits, privilege fees, and regulatory licenses	257,200	257,200	304,884	47,684
Fines and forfeitures	137,500	137,500	103,206	(34,294)
Revenues from use of money and property	215,500	215,500	210,104	(5,396)
Charges for services	215,514	215,514	229,904	14,390
Other	86,800	101,406	216,950	115,544
Recovered costs	1,818,801	1,818,801	1,835,240	16,439
Intergovernmental	2,465,498	2,480,912	3,953,986	1,473,074
Total revenues	14,915,233	14,945,253	16,707,084	1,761,831
EXPENDITURES				
Current:				
General government administration				
Town council	185,976	191,976	166,687	25,289
Town manager	231,553	231,553	197,842	33,711
Town clerk	254,969	259,969	224,447	35,522
Human resources	304,468	304,468	273,992	30,476
Legal services	127,180	127,180	65,721	61,459
Independent auditor	47,532	47,532	77,182	(29,650)
Treasurer	790,151	825,821	840,478	(14,657)
Disaster-emergency	-	-	146,737	(146,737)
Risk management	116,869	116,869	111,269	5,600
Information technology	856,650	856,650	862,061	(5,411)
Motor pool	221,600	221,600	211,644	9,956
Electoral board	11,825	11,825	12,089	(264)
Total general government administration	3,148,773	3,195,443	3,190,149	5,294
Public safety				
Police department	4,290,296	4,290,296	4,290,573	(277)
Total public safety	4,290,296	4,290,296	4,290,573	(277)

TOWN OF CULPEPER, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public works				
Public works administration	\$ 230,846	\$ 230,846	\$ 213,039	\$ 17,807
Streets	2,173,938	2,214,451	2,073,965	140,486
Refuse collection	376,737	376,737	344,488	32,249
General properties	632,021	736,411	699,221	37,190
Total public works	<u>3,413,542</u>	<u>3,558,445</u>	<u>3,330,713</u>	<u>227,732</u>
Parks, recreation, and cultural				
Parks and recreation	697,303	723,282	622,349	100,933
Cemetery	215,906	215,906	206,379	9,527
Total parks, recreation, and cultural	<u>913,209</u>	<u>939,188</u>	<u>828,728</u>	<u>110,460</u>
Community development				
Planning and zoning	525,705	540,311	536,501	3,810
Visitors center	85,821	85,821	80,913	4,908
Tourism	292,572	295,072	332,640	(37,568)
Economic development	106,250	106,250	106,250	-
Contributions	363,337	428,751	378,751	50,000
Total community development	<u>1,373,685</u>	<u>1,456,205</u>	<u>1,435,055</u>	<u>21,150</u>
Capital projects	<u>6,879,897</u>	<u>16,177,016</u>	<u>5,466,703</u>	<u>10,710,313</u>
Debt service:				
Principal retirement	947,161	947,161	933,736	13,425
Interest and fiscal charges	468,814	468,814	520,199	(51,385)
Bond issuance costs	-	-	53,236	(53,236)
Total debt service	<u>1,415,975</u>	<u>1,415,975</u>	<u>1,507,171</u>	<u>(91,196)</u>
Total expenditures	<u>21,435,377</u>	<u>31,032,568</u>	<u>20,049,092</u>	<u>10,983,476</u>
Excess of expenditures over revenues	<u>(6,520,144)</u>	<u>(16,087,315)</u>	<u>(3,342,008)</u>	<u>12,745,307</u>
OTHER FINANCING SOURCES				
Issuance of general obligation bonds	2,419,644	2,419,644	3,676,500	1,256,856
Transfers in	594,979	594,979	594,982	3
Total other financing sources	<u>3,014,623</u>	<u>3,014,623</u>	<u>4,271,482</u>	<u>1,256,859</u>
Net change in fund balances	<u>\$ (3,505,521)</u>	<u>\$ (13,072,692)</u>	<u>\$ 929,474</u>	<u>\$ 14,002,166</u>

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

TOWN OF CULPEPER, VIRGINIA

**SCHEDULES OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
AND OTHER POST-EMPLOYMENT BENEFITS
June 30, 2014**

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)		Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
DEFINED BENEFIT PLAN (VRS)						
June 30, 2013	\$ 23,391,350	\$ 32,691,602	\$ 9,300,252	71.55%	\$ 8,077,006	115.14%
June 30, 2012	\$ 22,581,241	\$ 32,486,722	\$ 9,905,481	69.51%	\$ 7,094,761	139.62%
June 30, 2011	\$ 22,963,880	\$ 31,581,077	\$ 8,617,197	72.71%	\$ 7,073,996	121.82%
June 30, 2010	\$ 22,231,761	\$ 30,334,011	\$ 8,102,250	73.29%	\$ 7,275,824	111.36%
OTHER POST-EMPLOYMENT BENEFITS						
June 30, 2013	\$ -	\$ 750,200	\$ 750,200	0.00%	\$ 7,950,900	9.44%
June 30, 2010	\$ -	\$ 645,400	\$ 645,400	0.00%	\$ 7,408,500	8.71%

**OTHER
SUPPLEMENTARY INFORMATION**

TOWN OF CULPEPER, VIRGINIA

**BALANCE SHEET – GOVERNMENTAL FUND
DISCREETLY PRESENTED COMPONENT UNIT
June 30, 2014**

	Industrial Development Authority
ASSETS	
Cash and cash equivalents	\$ 79,522
Cash and cash equivalents, restricted	50,667
Total assets	<u>\$ 130,189</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Deferred inflows of resources:	
Payments received in advance	\$ 50,667
Total liabilities	<u>50,667</u>
Fund Balance:	
Assigned	<u>79,522</u>
Total fund balance	<u>79,522</u>
Total liabilities and fund balance	<u>\$ 130,189</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:	
Total fund balance	\$ 79,522
Long-term assets, including notes receivable, are not due and receivable in the current period and therefore are not reported in the funds.	1,011,311
Debt payments received in advance create a deferral at the fund level for the entire amount; however, offset the note receivable and any interest earned to date on the Statement of Net Position.	42,370
Long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,050,644)</u>
Net position of governmental activities	<u>\$ 82,559</u>

TOWN OF CULPEPER, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2014**

	Industrial Development Authority
REVENUES	
Intergovernmental grants	\$ 120,114
Total revenues	120,114
EXPENDITURES	
Community development	120,519
Total expenditures	120,519
Excess of revenue over expenditures	(405)
Net change in fund balance	(405)
FUND BALANCE AT JULY 1	79,927
FUND BALANCE AT JUNE 30	\$ 79,522

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

Net change in fund balance	\$ (405)
Interest earned related to long-term notes receivable does not represent current financial resources and therefore are not reported as revenue in the funds.	26,275
Accrued interest reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(26,275)
Change in net position of governmental activities	\$ (405)

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 34 in 2005; 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									
	2014 ⁽¹⁾	2013 ⁽¹⁾	2012	2011	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Governmental Activities										
Net investment in capital assets	\$ 35,443,423	\$ 25,529,232	\$ 17,766,505	\$ 19,571,754	\$ 21,719,577	\$ 23,576,860	\$ 21,499,768	\$ 19,617,242	\$ 26,197,634	\$ 6,674,715
Restricted	1,438,266	1,303,598	598,758	542,416	592,481	-	1,415,016	2,709,578	-	-
Unrestricted	4,622,870	2,015,193	9,013,312	8,022,110	5,600,105	3,726,292	5,849,000	6,705,638	3,716,440	4,341,347
Total governmental activities net position	<u>\$ 41,504,559</u>	<u>\$ 28,848,023</u>	<u>\$ 27,378,575</u>	<u>\$ 28,136,280</u>	<u>\$ 27,912,163</u>	<u>\$ 27,303,152</u>	<u>\$ 28,763,784</u>	<u>\$ 29,032,458</u>	<u>\$ 29,914,074</u>	<u>\$ 11,016,062</u>
Business-Type Activities										
Net investment in capital assets	\$ 27,911,757	\$ 25,590,844	\$ 29,971,833	\$ 27,499,978	\$ 28,124,024	\$ 22,251,714	\$ 14,111,003	\$ 21,597,950	\$ 19,258,154	\$ 16,872,733
Restricted	-	-	-	-	-	2,470,415	19,219,105	-	-	-
Unrestricted	23,275,294	25,738,585	21,724,844	24,972,697	24,981,973	26,519,207	17,729,092	23,539,073	20,958,997	16,517,095
Total business-type activities net position	<u>\$ 51,187,051</u>	<u>\$ 51,329,429</u>	<u>\$ 51,696,677</u>	<u>\$ 52,472,675</u>	<u>\$ 53,105,997</u>	<u>\$ 51,241,336</u>	<u>\$ 51,059,200</u>	<u>\$ 45,137,023</u>	<u>\$ 40,217,151</u>	<u>\$ 33,389,828</u>
Primary Government										
Net investment in capital assets	\$ 63,355,180	\$ 51,120,076	\$ 47,738,338	\$ 47,071,732	\$ 49,843,601	\$ 45,828,574	\$ 35,610,771	\$ 41,215,192	\$ 45,455,788	\$ 23,547,448
Restricted	1,438,266	1,303,598	598,758	542,416	592,481	2,470,415	20,634,121	2,709,578	-	-
Unrestricted	27,898,164	27,753,778	30,738,156	32,994,807	30,582,078	30,245,499	23,578,092	30,244,711	24,675,437	20,858,442
Total primary government net position	<u>\$ 92,691,610</u>	<u>\$ 80,177,452</u>	<u>\$ 79,075,252</u>	<u>\$ 80,608,955</u>	<u>\$ 81,018,160</u>	<u>\$ 78,544,488</u>	<u>\$ 79,822,984</u>	<u>\$ 74,169,481</u>	<u>\$ 70,131,225</u>	<u>\$ 44,405,890</u>

Note: Trend data is only available since 2005 due to implementation of GASB 34

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

TABLE 2

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental Activities:										
General government	\$ 2,069,656	\$ 1,820,939	\$ 2,014,118	\$ 1,337,825	\$ 1,257,522	\$ 1,620,482	\$ 1,179,182	\$ 1,923,079	\$ 2,052,211	\$ 2,263,864
Public safety	4,620,506	4,355,486	3,982,363	4,014,472	3,962,281	4,082,574	3,953,400	3,729,120	3,265,458	2,861,082
Public works	4,882,783	3,927,287	3,609,893	3,230,087	3,615,820	4,196,462	4,095,306	3,483,959	3,125,192	2,182,609
Health and welfare	-	-	-	-	-	11,378	5,129	6,907	7,370	7,703
Parks, recreation, and cultural	869,890	952,084	759,713	581,190	541,764	555,241	629,683	624,332	472,106	448,082
Community development	1,463,571	1,448,109	1,374,210	1,854,682	1,709,856	1,116,215	1,063,436	1,035,442	1,194,108	1,237,622
Interest on long-term debt	567,245	529,532	430,650	338,982	509,832	295,133	276,215	157,203	145,391	156,384
Total governmental activities	14,473,651	13,033,437	12,170,947	11,357,238	11,597,075	11,877,485	11,202,351	10,960,042	10,261,836	9,157,346
Business-Type Activities:										
Water	3,947,082	3,173,641	3,080,472	2,989,018	2,836,510	3,044,418	3,164,725	2,623,445	2,414,757	2,208,579
Wastewater	5,401,822	5,438,022	5,322,081	5,480,065	3,745,960	4,778,920	4,316,981	3,507,532	3,116,891	2,935,237
Electric	11,823,318	10,592,276	11,195,220	10,158,556	8,884,255	9,596,223	9,950,373	8,803,188	8,036,552	6,666,374
Total business-type activities expense	21,172,222	19,203,939	19,597,773	18,627,639	15,466,725	17,419,561	17,432,079	14,934,165	13,568,200	11,810,190
Total primary government expenses	35,645,873	32,237,376	31,768,720	29,984,877	27,063,800	29,297,046	28,634,430	25,894,207	23,830,036	20,967,536
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	53,062	189,022	-	-	-	-	-	-	-	-
Public safety	157,238	185,890	244,823	188,207	217,637	158,783	157,226	151,259	175,421	128,426
Public works	322,027	224,756	216,426	134,538	149,335	75,307	110,628	155,174	717,210	408,363
Parks, recreation, and cultural	430,869	408,606	401,784	477,141	358,254	387,853	370,169	342,453	298,384	292,739
Community development	41,585	31,878	19,357	8,461	9,678	-	-	-	-	8,090
Operating grants and contributions	2,400,103	2,088,055	1,892,927	2,527,695	2,280,820	1,744,620	2,179,593	1,579,532	1,395,768	1,376,230
Capital grants and contributions	2,292,433	959,384	-	-	-	-	4,479	49,458	-	85,000
Total governmental activities program revenues	5,697,317	4,087,591	2,775,317	3,336,042	3,015,724	2,366,563	2,822,095	2,277,876	2,586,783	2,298,848
Business-Type Activities:										
Charges for services:										
Water	4,102,902	3,711,935	3,177,413	2,893,750	3,022,229	2,977,336	4,706,386	4,697,202	5,630,443	4,844,933
Wastewater	5,227,134	4,441,288	3,436,827	3,204,475	3,383,665	3,243,368	5,762,559	5,671,837	6,688,333	5,464,684
Electric	11,444,085	11,188,316	10,855,157	10,680,058	9,735,008	9,824,763	9,287,602	8,339,829	7,215,153	6,375,443
Capital grants and contributions	818,910	22,000	2,083	11,806	2,823,708	817,398	2,234,966	-	-	-
Total business-type activities program revenues	21,593,031	19,363,539	17,471,480	16,790,089	18,964,610	16,862,865	21,991,513	18,708,868	19,533,929	16,685,060
Total primary government program revenues	27,290,348	23,451,130	20,246,797	20,126,131	21,980,334	19,229,428	24,813,608	20,986,744	22,120,712	18,983,908
Net (Expense) Revenue										
Governmental activities	(8,776,334)	(8,945,846)	(9,395,630)	(8,021,196)	(8,581,351)	(9,510,922)	(8,380,256)	(8,682,166)	(7,675,053)	(6,858,498)
Business-type activities	420,809	159,600	(2,126,293)	(1,837,550)	3,497,885	(556,696)	4,559,434	3,774,703	5,965,729	4,874,870
Total primary government net expense	(8,355,525)	(8,786,246)	(11,521,923)	(9,858,746)	(5,083,466)	(10,067,618)	(3,820,822)	(4,907,463)	(1,709,324)	(1,983,628)

(Continued)

TABLE 2 (Continued)

TOWN OF CULPEPER, VIRGINIA

CHANGES IN NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting) (continued)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes										
Property taxes	\$ 3,052,885	\$ 2,905,805	\$ 2,764,759	\$ 2,757,576	\$ 3,159,991	\$ 2,568,973	\$ 2,379,368	\$ 1,814,074	\$ 1,657,129	\$ 1,401,475
Sales taxes	1,409,401	1,299,219	1,257,483	986,332	1,069,068	937,575	934,160	930,601	1,021,269	872,257
Business license tax	1,044,986	1,092,986	1,060,265	1,010,056	1,103,611	1,064,862	1,231,754	1,270,923	1,278,563	1,118,169
Franchise license tax	123,331	126,439	137,179	140,920	125,654	141,265	142,676	142,279	132,767	119,814
Motor vehicle license	-	-	-	-	-	-	19,878	255,438	248,492	221,474
Bank stock tax	305,972	287,309	273,240	329,972	271,467	235,807	209,900	259,624	270,124	218,450
Cigarette tax	173,094	183,297	126,516	144,010	148,459	177,417	183,449	193,272	196,449	203,219
Hotel and motel room tax	328,032	249,896	299,089	256,929	256,849	225,343	224,213	231,472	222,157	207,628
Food and beverage tax	3,362,648	2,622,243	1,846,124	1,790,476	1,748,975	1,762,648	1,907,318	1,940,164	1,948,458	1,536,313
Local consumption tax	65,165	61,845	59,249	53,883	54,759	62,491	62,565	61,972	61,773	50,321
Other local taxes	4,918	971	2,195	4,074	4,245	-	-	-	-	-
Intergovernmental revenue	231,885	231,473	443,255	285,193	230,617	230,058	257,038	240,733	235,199	262,882
Investment earnings	20,845	25,279	13,663	22,309	25,398	135,773	265,207	210,197	95,590	37,356
Other	103,546	74,341	54,908	163,583	453,053	508,078	294,056	249,801	246,002	568,976
Special Item: Annexation of State Roads	-	680,433	-	-	-	-	-	-	-	-
Transfers	594,982	573,758	300,000	300,000	302,145	-	-	-	-	-
Total governmental activities	10,821,690	10,415,294	8,637,925	8,245,313	8,954,291	8,050,290	8,111,582	7,800,550	7,613,972	6,818,334
Business-Type Activities:										
Investment earnings	37,648	46,910	216,685	252,103	329,668	738,832	1,362,743	1,145,169	762,413	299,664
Other	-	-	1,433,610	1,252,125	573,216	-	-	-	-	-
Insurance recovery	447,114									
Transfers	(594,982)	(573,758)	(300,000)	(300,000)	(302,145)	-	-	-	-	-
Total business-type activities	(110,220)	(526,848)	1,350,295	1,204,228	600,739	738,832	1,362,743	1,145,169	762,413	299,664
Total primary government	10,711,470	9,888,446	9,988,220	9,449,541	9,555,030	8,789,122	9,474,325	8,945,719	8,376,385	7,117,998
Changes in Net Position										
Governmental activities	2,045,356	1,469,448	(757,705)	224,117	372,940	(1,460,632)	(268,674)	(881,616)	(61,081)	(40,164)
Business-type activities	310,589	(367,248)	(775,998)	(633,322)	4,098,624	182,136	5,922,177	4,919,872	6,728,142	5,174,534
Total primary government	\$ 2,355,945	\$ 1,102,200	\$ (1,533,703)	\$ (409,205)	\$ 4,471,564	\$ (1,278,496)	\$ 5,653,503	\$ 4,038,256	\$ 6,667,061	\$ 5,134,370

Note: Trend data is only available since 2005 due to implementation of GASB 34

TABLE 3

TOWN OF CULPEPER, VIRGINIA

FUND BALANCES – GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2010	2009 ⁽¹⁾	2008	2007	2006	2005
Pre-GASB54:						
General Fund						
Reserved	\$ 237,575	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	8,714,679	3,698,776	7,298,518	6,862,521	3,890,052	4,502,307
Total general fund	<u>\$ 8,952,254</u>	<u>\$ 3,698,776</u>	<u>\$ 7,298,518</u>	<u>\$ 6,862,521</u>	<u>\$ 3,890,052</u>	<u>\$ 4,502,307</u>
All Other Governmental Funds						
Unreserved, reported in:						
Permanent fund	\$ 478,881	\$ 421,547	\$ 412,282	\$ 350,169	\$ 293,860	\$ 264,848
Total all other governmental funds	<u>\$ 478,881</u>	<u>\$ 421,547</u>	<u>\$ 412,282</u>	<u>\$ 350,169</u>	<u>\$ 293,860</u>	<u>\$ 264,848</u>
	2014 ⁽¹⁾	2013 ⁽¹⁾	2012	2011		
Post-GASB54:						
General Fund						
Nonspendable	\$ 86,437	\$ 146,178	\$ 80,810	\$ 58,070		
Restricted	6,732,852	664,894	470,772	265,133		
Committed	-	8,072,276	7,931,602	83,125		
Assigned	352,985	1,353,321	648,657	4,557,951		
Unassigned	4,726,934	823,784	314,975	4,000,756		
Total general fund	<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	\$ 703,499	\$ 638,704	\$ 598,758	\$ 542,416		
Total all other governmental funds	<u>\$ 703,499</u>	<u>\$ 638,704</u>	<u>\$ 598,758</u>	<u>\$ 542,416</u>		

Note: Trend data is only available since 2005.

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

TABLE 4

TOWN OF CULPEPER, VIRGINIA

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Taxes	\$ 9,852,810	\$ 8,794,666	\$ 7,834,966	\$ 7,432,462	\$ 7,738,427	\$ 7,145,133	\$ 7,276,554	\$ 7,126,549	\$ 7,017,270	\$ 5,961,179
Permits, privilege fees, and licenses	304,884	255,905	294,185	278,571	256,426	178,108	201,372	231,778	757,956	375,778
Fines and forfeitures	103,206	129,654	129,778	123,623	166,292	158,783	157,226	151,259	175,421	128,426
Investment earnings	210,983	210,859	191,908	232,691	249,704	356,434	493,722	418,812	303,218	237,078
Charges for services	293,820	255,751	284,563	200,374	92,425	62,041	62,613	57,188	50,010	133,693
Other	216,950	288,051	46,727	122,168	401,587	510,323	297,707	249,847	246,002	564,368
Recovered costs	1,835,240	1,817,446	2,009,672	2,052,104	1,630,016	1,544,137	1,461,127	1,168,821	758,563	703,636
Grant proceeds	-	-	-	-	-	25,090	87,655	-	-	-
Intergovernmental	3,953,986	3,279,435	2,342,176	2,975,718	2,562,603	1,949,588	2,338,101	1,869,723	1,630,967	1,724,112
Total revenues	16,771,879	15,031,767	13,133,975	13,417,711	13,097,480	11,929,637	12,376,077	11,273,977	10,939,407	9,828,270
Expenditures										
General government	3,190,149	3,146,377	2,703,451	2,491,505	2,146,254	2,583,546	2,203,714	2,188,450	1,966,866	1,790,504
Public safety	4,290,573	4,018,716	3,902,392	3,920,633	3,866,967	4,006,766	3,972,387	3,762,629	3,209,213	2,931,775
Public works	3,330,713	3,110,447	3,045,848	2,820,311	2,678,356	3,287,064	2,413,634	2,637,275	2,385,637	2,297,221
Parks, recreation, and cultural	828,728	906,712	715,352	654,533	489,512	512,386	582,890	516,086	452,943	432,798
Health and welfare	-	-	-	-	-	11,378	5,129	6,907	7,370	7,703
Community development	1,435,055	1,286,951	1,335,520	1,140,210	1,233,053	1,115,101	1,069,575	1,052,548	1,189,295	1,234,575
Capital projects	5,466,703	3,918,542	841,828	1,628,829	2,174,668	3,408,564	2,557,650	1,263,391	1,836,753	637,097
Debt service:										
Principal	933,736	784,741	716,123	573,103	498,974	835,589	406,721	399,388	388,500	376,465
Interest	520,199	442,610	419,506	412,271	393,527	299,844	273,288	168,525	148,077	159,260
Bond issuance costs	53,236	56,846	115,832	150,834	27,991	-	-	-	-	-
Total expenditures	20,049,092	17,671,942	13,795,852	13,792,229	13,509,302	16,060,238	13,484,988	11,995,199	11,584,654	9,867,398
Excess of revenues over (under) expenditures	(3,277,213)	(2,640,175)	(661,877)	(374,518)	(411,822)	(4,130,601)	(1,108,911)	(721,222)	(645,247)	(39,128)
Other Financing Sources (Uses)										
Proceeds from borrowing	3,676,500	3,720,000	900,000	10,223,397	5,629,000	540,124	1,607,021	3,750,000	-	-
Bond premium on issuance	-	-	-	804,730	-	-	-	-	-	-
Payments to escrow agent	-	-	-	(10,877,293)	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	4,607
Transfers in	594,982	573,758	300,000	300,000	302,145	-	-	-	-	-
Total other financing sources (uses)	4,271,482	4,293,758	1,200,000	450,834	5,931,145	540,124	1,607,021	3,750,000	-	4,607
Net change in fund balances	\$ 994,269	\$ 1,653,583	\$ 538,123	\$ 76,316	\$ 5,519,323	\$ (3,590,477)	\$ 498,110	\$ 3,028,778	\$ (645,247)	\$ (34,521)
Debt service as a percentage of noncapital expenditures	9.06%	8.98%	8.59%	7.91%	7.87%	9.86%	6.64%	5.59%	5.83%	6.16%

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		
2014	\$ 1,411,785,500	\$ 142,461,383	\$ 18,781,109	\$ 25,499,302	\$ 58,635	\$ 1,598,585,929	0.22
2013	1,346,564,800	134,140,673	16,413,572	39,446,496	357,302	1,536,922,843	0.21
2012	1,155,780,300	126,677,786	16,266,484	40,816,355	79,380	1,339,620,305	0.22
2011	1,287,542,000	133,963,333	20,757,388	48,045,998	1,911,743	1,492,220,462	0.22
2010	1,785,785,500	139,139,665	22,495,201	40,564,090	1,668,322	1,989,652,778	0.18
2009	1,563,586,200	136,139,100	21,760,395	35,383,007	983,329	1,757,852,031	0.17
2008	963,769,900	142,842,648	18,341,320	19,440,651	667,460	1,145,061,979	0.20
2007	817,689,900	122,697,893	14,444,109	23,007,051	589,037	978,427,990	0.18
2006	693,113,200	101,456,447	13,660,456	29,229,543	884,246	838,343,892	0.19
2005	636,202,400	94,391,470	23,099,925	41,051,206	1,394,951	796,139,952	0.20

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

(1) Per \$100 of assessed value.

TABLE 6

TOWN OF CULPEPER, VIRGINIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Overlapping Rates Culpeper County	
				Real Estate	Personal Property	Real Estate	Personal Property
2014	0.13	1.00	0.80	0.13	1.00	0.83	3.50
2013	0.13	1.00	0.80	0.11	1.00	0.83	3.50
2012	0.13	1.00	0.80	0.11	1.00	0.74	3.50
2011	0.13	1.00	0.80	0.11	1.00	0.74	3.50
2010	0.11	1.00	0.80	0.11	1.00	0.65	3.50
2009	0.09	1.00	0.80	0.09	1.00	0.61	3.50
2008	0.07	1.00	0.80	0.07	1.00	0.56	3.50
2007	0.08	0.80	0.80	0.08	0.80	0.89	3.50
2006	0.09	0.80	0.80	0.09	0.80	0.89	3.50
2005	0.09	0.80	0.80	0.09	0.80	0.89	2.50

TABLE 7

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

June 30, 2014

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Culpeper Memorial Hospital, Inc	Medical	\$ 24,863,400	1.76%
Society for Worldwide Interbank Transfers	Banking operations	18,117,100	1.28%
Dominion Square-Culpeper LLC	Shopping center	12,354,800	0.88%
Wal-Mart Real Estate Business Properties	Retail/grocery	10,905,600	0.77%
Culpeper Marketplace Associates	Shopping center	9,547,900	0.68%
Culpeper Regency LLC	Shopping center	7,719,400	0.55%
Target Corporation	Retail/grocery	7,195,400	0.51%
Lowe's Home Centers Inc.	Retail	6,921,100	0.49%
Southridge/Culpeper LP	Shopping center	6,584,800	0.47%
Masco Builder Cabinet Group	Manufacturing	6,541,100	0.46%

June 30, 2005

Name	Nature of Business	Assessed Value	Percent of Real Estate Tax
Society for Worldwide Interbank	Banking operation	\$ 13,613,500	1.22%
Dominion Square – Culpeper LLC	Shopping center	13,343,400	1.20%
Walmart Real Estate Business Trust	Retail/grocery	11,178,000	1.00%
Culpeper Commons, L.P.	Multi-family housing	8,426,600	0.76%
Medical Facilities of America, XVI	Nursing home and elderly care	6,803,500	0.76%
Culpeper Shopping Center Joint Venture	Shopping center	5,435,100	0.61%
Southridge / Culpeper, L.P.	Multi-Family housing	4,843,200	0.49%
Sign of the Goldfish, LLC	Furniture manufacturer	4,620,500	0.41%
Culpeper House LTD Partnership	Multi-family housing	4,264,100	0.38%
Merillat Corporation	Cabinet manufacturer	4,259,700	0.38%

Note: Information available only for 2005 to present.

TABLE 8

TOWN OF CULPEPER, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2014	\$ 3,053,072	\$ 2,822,444	92.45%	\$ -	3,020,112	98.92%
2013	2,822,635	2,718,709	96.32%	197,668	2,916,377	103.32%
2012	2,723,711	2,648,044	97.22%	152,686	2,800,730	102.83%
2011	2,869,395	2,834,635	98.79%	34,760	2,869,395	100.00%
2010	2,823,203	2,534,180	89.76%	213,169	2,747,349	97.31%
2009	2,392,938	2,282,979	95.40%	32,542	2,315,521	96.76%
2008	1,807,196	1,781,320	98.57%	32,932	1,814,252	100.39%
2007	1,624,710	1,567,012	96.45%	23,148	1,590,160	97.87%
2006	1,585,440	1,562,953	98.58%	48,412	1,611,365	101.64%
2005	1,533,742	1,490,096	97.15%	27,609	1,517,705	98.95%

Source: Tax Records of the Town.

TABLE 9

TOWN OF CULPEPER, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental	Business-Type Activities						Total Primary Government	Percentage of Personal Income	Per Capita
	Activities									
	General	General Obligation Bonds*								
	Obligation Bonds	Water Bonds	Wastewater Bonds	Electric Bonds	Capital Leases					
2014	\$ 18,457,598	\$ 7,394,349	\$ 19,289,433	\$ 5,852,615	\$ 212,707	\$ 51,206,702	6.83%	2,987		
2013	15,758,484	6,764,750	20,076,104	6,114,792	67,430	48,781,560	6.51%	2,845		
2012	12,866,875	3,037,383	20,857,910	4,245,381	109,073	41,116,622	5.49%	2,436		
2011	12,788,716	3,439,116	21,864,156	4,482,978	-	42,574,966	5.44%	2,555		
2010	13,097,918	3,838,241	21,900,138	4,705,832	-	43,542,129	5.81%	2,658		
2009	7,968,892	4,029,785	22,134,345	4,929,746	-	39,062,768	3.87%	2,790		
2008	8,263,350	4,350,660	22,326,685	5,039,291	38,180	40,018,166	5.27%	2,582		
2007	7,065,072	4,453,548	4,155,951	1,540,470	98,327	17,313,368	1.72%	1,117		
2006	3,714,465	4,946,731	4,415,642	1,749,693	155,724	14,982,255	1.71%	1,060		
2005	4,102,966	5,407,174	4,654,492	1,944,778	169,433	16,278,843	2.11%	1,255		

* 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	Per Capita
	General Obligation Bonds	Value of Property	
2014	\$ 49,725,178	3.11%	2,900
2013	47,381,000	3.08%	2,764
2012	39,596,000	2.96%	2,346
2011	42,574,966	2.85%	2,555
2010	43,542,129	2.19%	2,658
2009	39,062,768	2.22%	521
2008	40,018,166	0.47%	533
2007	17,313,368	0.62%	456
2006	14,982,255	0.38%	263
2005	16,278,843	0.49%	316

TABLE 11

TOWN OF CULPEPER, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Debt limit	\$ 143,728,480	\$ 146,959,170	\$ 119,659,666	\$ 133,558,800	\$ 182,634,959	\$ 178,578,550	\$ 156,358,620	\$ 96,376,990	\$ 81,768,970	\$ 69,311,320
Total net debt applicable to limit	18,457,598	15,758,484	12,866,875	12,788,716	13,097,918	7,967,892	8,242,832	7,065,072	3,714,465	4,102,966
Legal debt margin	<u>\$ 125,270,882</u>	<u>\$ 131,200,686</u>	<u>\$ 106,792,791</u>	<u>\$ 120,770,084</u>	<u>\$ 169,537,041</u>	<u>\$ 170,610,658</u>	<u>\$ 148,115,788</u>	<u>\$ 89,311,918</u>	<u>\$ 78,054,505</u>	<u>\$ 65,208,354</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>12.84%</u>	<u>10.72%</u>	<u>10.75%</u>	<u>9.58%</u>	<u>7.17%</u>	<u>4.46%</u>	<u>5.27%</u>	<u>7.33%</u>	<u>4.54%</u>	<u>5.92%</u>

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	<u>\$ 1,437,284,802</u>
Debt limit (10% of assessed value)	\$ 143,728,480
Less debt applicable to limit:	
General obligation bonds	<u>(18,457,598)</u>
Legal debt margin	<u>\$ 125,270,882</u>

TABLE 12

TOWN OF CULPEPER, VIRGINIA

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2014	\$18,653,465	\$16,993,104	\$ 1,660,361	\$ 1,585,474	\$ 1,090,808	0.62
2013	17,874,539	15,233,615	2,640,924	1,430,259	1,113,035	1.04
2012	17,469,397	15,532,231	1,937,166	1,372,877	1,281,466	0.73
2011	16,778,283	14,392,590	2,385,693	1,268,044	1,236,347	0.95
2010	16,140,902	12,324,520	3,816,382	859,595	1,502,738	1.62
2009	15,809,954	13,582,280	2,227,674	818,487	1,503,188	0.96
2008	15,257,033	13,149,773	2,107,260	1,018,056	904,037	1.10
2007	13,869,844	11,975,771	1,894,073	1,006,821	692,278	1.11
2006	12,400,199	10,864,048	1,536,151	859,626	549,582	1.09
2005	10,579,230	9,110,547	1,468,683	959,607	824,837	0.82

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

TABLE 13

TOWN OF CULPEPER, VIRGINIA

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year Ended	Population	Personal Income	Per Capita Personal Income	Median Income	Median Age	School Enrollment	Unemployment Rate
2014	N/A	N/A	N/A	N/A	N/A	N/A	5.50%
2013	17,145	N/A	N/A	\$ 57,873	38	3,864	6.10%
2012	16,881	N/A	\$ 25,516	61,434	32	5,700	6.50%
2011	16,662	N/A	25,211	71,230	32	3,247	7.30%
2010	16,379	\$ 749,221,044	N/A	63,250	32	3,682	8.00%
2009	14,003	740,337,000	N/A	62,500	38	3,036	7.40%
2008	13,527	758,725,500	N/A	61,500	38	2,811	5.10%
2007	12,868	1,009,050,000	N/A	65,100	35	2,445	3.20%
2006	11,882	877,014,700	N/A	62,050	37	2,357	3.20%
2005	10,956	770,418,000	N/A	59,400	35	2,357	3.20%

Source: Census Data and Town of Culpeper Planning Department.

N/A: Not available

TABLE 14

TOWN OF CULPEPER, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

June 30, 2014

Employer	Product/Service	Total Estimated Employees	Percent of Workforce
Culpeper County Schools	Public Agency	1100	9.0%
Culpeper Regional Hospital	Health Care	698	5.7%
Walmart	Commercial Retailer	500	4.1%
County of Culpeper	Public Agency	478	3.9%
VA Department of Transportation (VDOT)	Public Agency	415	3.4%
Masco Builder Cabinet Group	Factory	340	2.8%
Continental Automotive	Factory	240	2.0%
Cintas	Uniform Service	265	2.2%
Town of Culpeper Health & Rehab Center	Health Care	186	1.5%
Swift	Financial Institution	180	1.5%

June 30, 2005

Employer	Product/Service	Total Estimated Employees	Percent of Workforce
Culpeper County Schools	Public Agency	1183	6.4%
VA Department of Transportation (VDOT)	Public Agency	722	4.1%
Culpeper Regional Hospital	Health Care	600	3.3%
Walmart	Commercial Retailer	438	2.8%
Culpeper County Government	Public Agency	400	1.9%

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

Note: Information has only been available since 2005, and only the top five was available at that time.

TABLE 15

TOWN OF CULPEPER, VIRGINIA

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

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

Note: No information available prior to 2008.

Source: Town's payroll records.

TABLE 16

TOWN OF CULPEPER, VIRGINIA

OPERATING INDICATORS BY FUNCTION
Last Seven Fiscal Years

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

Note: No information available prior to 2008.

Source: Internal data from various departments.

TABLE 17

TOWN OF CULPEPER, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION
Last Seven Fiscal Years

Function	2014	2013	2012	2011	2010	2009	2008
Public Safety							
Stations	1	1	1	1	1	1	1
Number of patrol units	36	33	33	33	33	29	32
Public Works							
Streets (miles)	66	66	62	64	62	62	58
Street & yard lights	1054	1109	1,116	1,133	1,133	1,175	1,175
Traffic signals	20	20	19	15	15	14	14
Water Operations							
Miles of water main	101.35	100	99	99	99	99	98
Number of fire hydrants	740	737	678	678	678	678	638
Wastewater Operations							
Miles of sanitary sewer	95.5	96	95	95	95	95	95
Miles of storm sewer	30.5	30	20	20	20	20	20
Number of treatment plants	1	1	1	1	1	1	1
Number of pumping stations	9	9	9	9	9	9	9
Electric Operations							
Miles of overhead lines (miles)	27.66	27.66	27.66	27.66	N/A	N/A	N/A
Miles of underground lines (miles)	44.12	42.87	41.78	41.78	N/A	N/A	N/A
Number of sub-stations (115 kV)	1	1	1	1	1	1	1
Number of delivery points (34.5 kV)	1	0	0	0	1	2	2

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

Source: Internal data from various departments.

COMPLIANCE SECTION

**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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town basic financial statements, and have issued our report thereon dated January 2, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. **We consider the deficiencies in internal control as described in the accompanying schedule of findings and responses as items 10-1 and 10-2 to be material weaknesses.**

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 two instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* which are further described in the accompanying schedule of findings and responses as Items 14-1 and 14-2.**

Town of Culpeper's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
January 2, 2015

TOWN OF CULPEPER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

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

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

A. FINDINGS – FINANCIAL STATEMENT AUDIT

Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management concurs with this recommendation.

Financial Reporting Controls (Material Weakness)

Condition:

As more fully discussed in the letter on internal control matters, we noted a significant number of control deficiencies over the financial reporting process of the Town. These deficiencies resulted in material audit adjustments and are summarized as follows:

- There are no internal reviews over various financial system updates, changes, journal entries, or billing reports.
- The trial balance is not reviewed for accuracy or completeness and is not reconciled to subsidiary ledgers.
- Inadequate controls over recordkeeping of capital assets, including controls to ensure all have been properly reflected in the financial statements.
- Inadequate access controls over information technology systems.

Recommendation:

The Town should implement steps to improve its financial reporting process. Specific recommendations are included in the letter on internal control matters.

Management's Response:

Management concurs with this recommendation.

TOWN OF CULPEPER, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

B. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

Budget Overages

Condition:

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

Recommendation:

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

Management's Response:

Management concurs with this recommendation.

Commonwealth of Virginia: Highway Maintenance Costs

Condition:

In our sample of twenty work orders, we noted one work-order that included work performed on an ineligible street.

Recommendation:

We recommend that the Town ensure work is only performed on eligible streets.

Management's Response:

We concur with this finding. To address this specific issue, we developed a list of ineligible streets which is used by public works personnel when completing work orders.