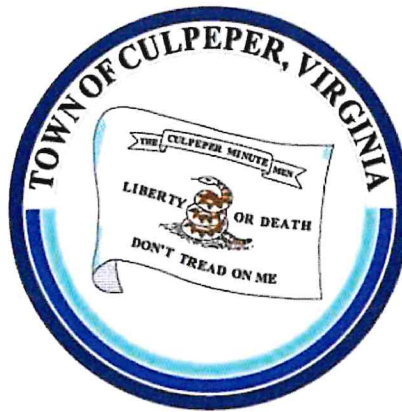




TOWN OF CULPEPER, VIRGINIA

Results of the Audit
Annual Comprehensive Financial Report
June 30, 2022

Presented by:
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November 14, 2022

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

In connection with our audit of the financial statements of the Town of Culpeper, Virginia (Town) for the year ended June 30, 2022, we have the following comments and suggestions for your consideration.

Water and Wastewater Funds

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

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>
2022	\$ (1,334,454)	\$ (50,649)
2021	(1,573,698)	(507,224)
2020	(1,710,685)	206,909

With the exception of the Wastewater Fund in fiscal year 2020, operating activities of the two funds have resulted in operating losses. This is an indication the revenue generated from operating activities is not sufficient to cover operating expenses. While it has been brought to our attention the Town has recently had third party consultants perform a rate study for the Town, we recommend the Town consider reviewing its current rates charged for services being charged to customers to ensure each fund can cover its operating expenses including depreciation expense. While depreciation expense is not a current cash outlay of the either fund, operating revenues should still be sufficient to cover this expense. If the funds are able to generate revenue to cover all operating costs, this will allow the Town to build the necessary reserves to fund expenses related to upgrading assets in the near future as older assets become fully depreciated and have to be replaced by the Town. This will also allow the Town to build reserves that may prevent the Town from incurring any additional debt to fund expansion of services and upgrades to aging infrastructure.

New GASB Pronouncements

At June 30, 2022, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Town. The statements which might impact the Town are as follows:

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate—most notably, the London Interbank Offered Rate (LIBOR), which ceased to exist at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Portions of Statement No. 93 will be effective for fiscal years beginning after June 15, 2021 and December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 99, *Omnibus 2022*

This Statement provides guidance to enhance comparability in accounting and financial reporting for derivative instruments, leases, financial guarantees, and a wide range of other accounting and financial reporting issues that have been identified during the implementation and application of certain GASB statements. The requirements related to GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and terminology updates related to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* are effective upon issuance. The requirements related to GASB Statement No. 87, *Leases*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* will be effective for the Town beginning with its year ending June 30, 2023.

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

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

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

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

GASB Statement No. 101, *Compensated Absences*

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

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

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

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2022 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

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