

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**FINANCIAL REPORT**  
**JUNE 30, 2016**

**TOWN OF COLONIAL BEACH, VIRGINIA  
FINANCIAL REPORT**

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# INTRODUCTORY SECTION

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**TOWN OF COLONIAL BEACH, VIRGINIA  
DIRECTORY OF PUBLIC OFFICIALS**

**TOWN COUNCIL**

Mike Ham, Mayor  
Edward Blunt  
Wayne DiRosario  
L. “Tommy” Edwards  
Wanda Goforth  
Michael Looney  
Burkett Lyburn

**OTHER OFFICIALS**

Val Foulds, Town Manager  
Kathleen Flanagan, Town Clerk  
Andrea G. Erard, Town Attorney  
Joan Grant, Chief Financial Officer  
Danny Plott, Chief of Police  
Robert Murphy, Director of Public Works  
Kevin Newman, Superintendent of Schools

**SCHOOL BOARD**

Tim Trivett, Chair  
Vicky Roberson, Vice Chair  
Scott Foster  
Michelle Payne  
Patrice Lyburn

## FINANCIAL SECTION

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Members of Town Council and School Board  
Town of Colonial Beach, Virginia

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

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

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

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

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

Our responsibility is to express an opinion 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, and the *Specifications for Audits of Counties, Cities, and Towns* 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 aggregate discretely presented component unit and each major fund of the Town, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### ***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 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.



*Other Information (Continued)*

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

The introductory section has 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 it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
November 29, 2016

# **BASIC FINANCIAL STATEMENTS**

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## TOWN OF COLONIAL BEACH, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2016

	Primary Government			Discretely Presented
	Governmental	Business-Type		Component Unit
	Activities	Activities	Totals	School Board
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 3,891,300	\$ 795,235	\$ 4,686,535	\$ 751,357
Receivables, net (Note 3)	271,583	343,300	614,883	2,310
Due from other governments (Note 3)	183,970	106,415	290,385	195,956
Due from component unit (Note 4)	348,704	-	348,704	-
Prepays	-	-	-	258,903
Restricted cash and cash equivalents (Note 2)	2,677	542,691	545,368	7,977,826
Net pension asset (Note 8)	434,694	155,068	589,762	-
Capital assets: (Note 5)				
Nondepreciable	2,065,360	179,705	2,245,065	739,981
Depreciable, net	7,441,322	17,994,542	25,435,864	2,948,981
Total assets	14,639,610	20,116,956	34,756,566	12,875,314
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension contributions subsequent to measurement date (Notes 8 and 9)	162,235	57,874	220,109	501,479
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	731,632	186,365	917,997	658,191
Accrued interest payable	238,539	37,809	276,348	-
Due to primary government (Note 4)	-	-	-	348,704
Noncurrent liabilities:				
Net pension liability (Note 9)	-	-	-	5,506,000
Due within one year (Note 7)	339,182	468,854	808,036	30,617
Due in more than one year (Note 7)	11,007,067	7,751,325	18,758,392	159,463
Total liabilities	12,316,420	8,444,353	20,760,773	6,702,975
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenues (Note 6)	94,670	-	94,670	-
Deferred inflows related to pensions (Notes 8 and 9)	799,460	285,191	1,084,651	499,000
Total deferred inflows of resources	894,130	285,191	1,179,321	499,000
<b>NET POSITION</b>				
Net investment in capital assets	7,221,457	10,436,197	17,657,654	11,476,234
Restricted for:				
School capital projects	96,289	-	96,289	-
Debt service per debt agreement	-	102,691	102,691	-
Unrestricted	(5,726,451)	906,398	(4,820,053)	(5,301,416)
Total net position	\$ 1,591,295	\$ 11,445,286	\$ 13,036,581	\$ 6,174,818

## TOWN OF COLONIAL BEACH, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals	Discretely Presented Component Unit School Board
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- Type Activities		
<b>Primary Government:</b>								
Governmental activities:								
General government	\$ 746,029	\$ 895	\$ -	\$ -	\$ (745,134)		\$ (745,134)	\$ -
Public safety	1,158,549	22,998	84,600	-	(1,050,951)		(1,050,951)	-
Public works	2,215,765	111,824	686,061	-	(1,417,880)		(1,417,880)	-
Health and welfare	4,800	-	-	-	(4,800)		(4,800)	-
Parks, recreation, and cultural	9,975	-	-	-	(9,975)		(9,975)	-
Community development	337,192	133,360	505,575	-	301,743		301,743	-
Education	10,747,138	-	-	-	(10,747,138)		(10,747,138)	-
Interest and issuance costs	494,729	-	-	-	(494,729)		(494,729)	-
Total governmental activities	15,714,177	269,077	1,276,236	-	(14,168,864)		(14,168,864)	-
Business-type activities:								
Water	500,072	798,816	-	-		\$ 298,744	298,744	-
Sewer	2,019,936	1,870,008	-	-		(149,928)	(149,928)	-
Total business-type activities	2,520,008	2,668,824	-	-		148,816	148,816	-
Total primary government	\$ 18,234,185	\$ 2,937,901	\$ 1,276,236	\$ -	(14,168,864)	148,816	(14,020,048)	-
<b>Discretely Presented Component Unit:</b>								
School Board	\$ 6,725,305	\$ 95,509	\$ 4,418,184	\$ -				(2,211,612)
General revenues:								
Taxes:								
General property taxes					3,953,470	-	3,953,470	-
Other local taxes:								
Local sales and use					205,752	-	205,752	-
Food and lodging					538,376	-	538,376	-
Consumer utility and communications sales and use					284,555	-	284,555	-
Other					340,812	-	340,812	-
Contributions from Town					-	-	-	10,747,138
Intergovernmental, non-categorical aid					240,317	-	240,317	-
Use of money and property					30,302	-	30,302	25,111
Other					20,755	-	20,755	196,113
Total general revenues and transfers					5,614,339	-	5,614,339	10,968,362
Change in net position					(8,554,525)	148,816	(8,405,709)	8,756,750
<b>NET POSITION AT JULY 1, AS RESTATED (NOTE 15)</b>					10,145,820	11,296,470	21,442,290	(2,581,932)
<b>NET POSITION AT JUNE 30</b>					\$ 1,591,295	\$ 11,445,286	\$ 13,036,581	\$ 6,174,818

## TOWN OF COLONIAL BEACH, VIRGINIA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2016

	General	Capital Projects	Erosion Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,066,009	\$ 690,223	\$ 135,068	\$ 3,891,300
Receivables, net	271,583	-	-	271,583
Due from other governments	183,970	-	-	183,970
Due from component unit	348,704	-	-	348,704
Restricted cash and cash equivalents	2,677	-	-	2,677
Total assets	<u>\$ 3,872,943</u>	<u>\$ 690,223</u>	<u>\$ 135,068</u>	<u>\$ 4,698,234</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 731,632	\$ -	\$ -	\$ 731,632
Total liabilities	<u>731,632</u>	<u>-</u>	<u>-</u>	<u>731,632</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable/unearned revenue (Note 6)	285,606	-	-	285,606
Total deferred inflows of resources	<u>285,606</u>	<u>-</u>	<u>-</u>	<u>285,606</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term amounts due from component unit	348,704	-	-	348,704
Committed for:				
Fire department	-	1,081	-	1,081
Rescue squad	-	1,081	-	1,081
Schools	-	2,162	-	2,162
School capital projects	98,966	-	-	98,966
Paving	-	150,000	-	150,000
Matching grant funds	135,000	-	-	135,000
Capital projects	200,000	-	-	200,000
Assigned for:				
Capital projects	-	535,899	-	535,899
Erosion funds	-	-	135,068	135,068
Unassigned	2,073,035	-	-	2,073,035
Total fund balances	<u>2,855,705</u>	<u>690,223</u>	<u>135,068</u>	<u>3,680,996</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,872,943</u>	<u>\$ 690,223</u>	<u>\$ 135,068</u>	<u>\$ 4,698,234</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2016**

<b>Total Fund Balance - Governmental Funds</b>		\$ 3,680,996
<b>Amounts reported for governmental activities in the Statement of Net Position are different because:</b>		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Nondepreciable	\$ 2,065,360	
Depreciable, net	<u>7,441,322</u>	9,506,682
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		190,936
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2016 employer contributions	162,235	
Net pension asset	434,694	
Deferred inflows of resources for the differences between expected and actual experience	(688,422)	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	<u>(111,038)</u>	(202,531)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	\$ (11,243,524)	
Compensated absences	(102,725)	
Accrued interest payable	<u>(238,539)</u>	(11,584,788)
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ 1,591,295</u></u>

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2016**

	General	Capital Projects	Erosion Funds	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 3,940,522	\$ -	\$ -	\$ 3,940,522
Other local taxes	1,369,495	-	-	1,369,495
Permits, privilege fees, and regulatory licenses	159,853	-	-	159,853
Charges for services	109,224	-	-	109,224
Use of money and property	30,302	-	-	30,302
Miscellaneous	20,755	-	-	20,755
Intergovernmental	1,516,553	-	-	1,516,553
Total revenues	7,146,704	-	-	7,146,704
<b>EXPENDITURES</b>				
Current:				
General government	935,873	-	-	935,873
Public safety	1,393,852	-	-	1,393,852
Public works	1,922,477	-	-	1,922,477
Health and welfare	4,800	-	-	4,800
Parks, recreation, and cultural	5,000	-	-	5,000
Community development	846,878	-	-	846,878
Education	10,812,176	-	-	10,812,176
Debt service:				
Principal retirement (Note 7)	247,594	-	-	247,594
Interest and fiscal charges	65,045	-	-	65,045
Bond issuance expense	225,654	-	-	225,654
Total expenditures	16,459,349	-	-	16,459,349
Excess of expenditures over revenues	(9,312,645)	-	-	(9,312,645)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of general obligation bonds	8,963,022	-	-	8,963,022
Sale of property	-	1,300	-	1,300
Transfers in (Note 4)	685,481	-	-	685,481
Transfers out (Note 4)	-	(685,481)	-	(685,481)
Total other financing sources (uses)	9,648,503	(684,181)	-	8,964,322
Net change in fund balance	335,858	(684,181)	-	(348,323)
<b>FUND BALANCES AT JULY 1</b>	2,519,847	1,374,404	135,068	4,029,319
<b>FUND BALANCES AT JUNE 30</b>	\$ 2,855,705	\$ 690,223	\$ 135,068	\$ 3,680,996

## TOWN OF COLONIAL BEACH, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016**

<b>Net Change in Fund Balance - Governmental Funds</b>		\$ (348,323)
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
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 and reported as depreciation expense.		
Capital outlays	\$ 773,386	
Depreciation expense	<u>(717,895)</u>	55,491
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions	162,235	
Pension income	<u>440,119</u>	602,354
In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold.		(11,327)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		12,948
Assets transferred to and from component units that are not considered a current financial resource are reported only in the Statement of Activities for governmental funds.		64,388
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Debt principal repayment	247,594	
Proceeds from bond issuance	(8,630,000)	
Changes in bond premiums	<u>(325,622)</u>	(8,708,028)
Some expenses 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.		
Change in accrued interest	\$ (211,430)	
Change in compensated absences	<u>(10,598)</u>	(222,028)
<b>Change in Net Position - Governmental Activities</b>		<u><u>\$ (8,554,525)</u></u>



## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION -  
PROPRIETARY FUNDS

June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 427,909	\$ 367,326	\$ 795,235
Receivables, net	100,272	243,028	343,300
Total current assets	528,181	610,354	1,138,535
Noncurrent assets:			
Restricted cash and cash equivalents	290,000	252,691	542,691
Intergovernmental receivable	-	106,415	106,415
Net pension asset	49,868	105,200	155,068
Capital assets:			
Nondepreciable	153,325	26,380	179,705
Depreciable, net	2,661,767	15,332,775	17,994,542
Total noncurrent assets	3,154,960	15,823,461	18,978,421
Total assets	3,683,141	16,433,815	20,116,956
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions made subsequent to the measurement date (Note 8)	18,612	39,262	57,874
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other current liabilities	50,118	136,247	186,365
Accrued interest payable	20,062	17,747	37,809
Compensated absences (Note 7)	8,817	26,000	34,817
Current portion of long-term liabilities (Note 7)	170,713	263,324	434,037
Total current liabilities	249,710	443,318	693,028
Noncurrent liabilities:			
Compensated absences (Note 7)	-	7,312	7,312
Long-term debt (Note 7)	1,593,067	6,150,946	7,744,013
Total noncurrent liabilities	1,593,067	6,158,258	7,751,325
Total liabilities	1,842,777	6,601,576	8,444,353
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions (Note 8)	91,714	193,477	285,191
<b>NET POSITION</b>			
Net investment in capital assets	1,341,312	9,094,885	10,436,197
Restricted per debt agreement	-	102,691	102,691
Unrestricted	425,950	480,448	906,398
Total net position	\$ 1,767,262	\$ 9,678,024	\$ 11,445,286

## TOWN OF COLONIAL BEACH, VIRGINIA

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

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 759,600	\$ 1,836,259	\$ 2,595,859
Connection fees	39,216	33,749	72,965
Total operating revenues	798,816	1,870,008	2,668,824
<b>OPERATING EXPENSES</b>			
Personnel	196,198	566,128	762,326
Operating	166,975	732,679	899,654
Depreciation	92,752	592,496	685,248
Total operating expenses	455,925	1,891,303	2,347,228
Operating income (loss)	342,891	(21,295)	321,596
<b>NONOPERATING EXPENSES</b>			
Interest expense	(44,147)	(128,633)	(172,780)
Change in net position	298,744	(149,928)	148,816
<b>NET POSITION AT JULY 1</b>	1,468,518	9,827,952	11,296,470
<b>NET POSITION JUNE 30</b>	<u>\$ 1,767,262</u>	<u>\$ 9,678,024</u>	<u>\$ 11,445,286</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS  
Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 777,878	\$ 1,871,056	\$ 2,648,934
Payments to suppliers	(171,001)	(748,268)	(919,269)
Payments to employees	(237,568)	(712,537)	(950,105)
Net cash provided by operating activities	369,309	410,251	779,560
<b>NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Interfund borrowing	(120,155)	120,155	-
Net cash provided by (used in) noncapital financing activities	(120,155)	120,155	-
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(181,741)	(278,284)	(460,025)
Principal paid on long-term debt	(177,622)	(259,485)	(437,107)
Interest paid on long-term debt	(45,131)	(124,294)	(169,425)
Net cash used by capital and related financing activities	(404,494)	(662,063)	(1,066,557)
Net decrease in cash and cash equivalents	(155,340)	(131,657)	(286,997)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	873,249	751,674	1,624,923
Ending at June 30	\$ 717,909	\$ 620,017	\$ 1,337,926
<b>RECONCILIATION TO EXHIBIT 7</b>			
Cash and cash equivalents	\$ 427,909	\$ 367,326	\$ 795,235
Restricted cash and cash equivalents	290,000.00	252,691	542,691
Total	\$ 717,909	\$ 620,017	\$ 1,337,926
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 342,891	\$ (21,295)	\$ 321,596
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	92,752	592,496	685,248
Pension expense net of employer contributions	(41,965)	(154,313)	(196,278)
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables, net	(20,938)	(49,694)	(70,632)
Intergovernmental receivables	-	50,742	50,742
Increase (decrease) in:			
Accounts payable and other current liabilities	(4,026)	(15,589)	(19,615)
Compensated absences	595	7,904	8,499
Net cash provided by operating activities	\$ 369,309	\$ 410,251	\$ 779,560
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>			
Capital asset purchases included in accounts payable at year end	\$ 22,852	\$ -	\$ 22,852
Capitalized interest	\$ 5,783	\$ -	\$ 5,783

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

##### A. The Financial Reporting Entity

The Town of Colonial Beach, Virginia (the “Town”) was established by an act of the Virginia General Assembly in 1892 and is one of two incorporated towns in Westmoreland County, Virginia (the “County”). It is a political subdivision of the Commonwealth of Virginia, and operates under the Town Council-Manager form of government, as elected by the residents of the Town. The Town owns and operates its own water and sewer system, provides trash and garbage pickup, and police protection for its residents.

The accompanying financial statements present the Town and its component unit, an entity for which the Town is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town.

##### *Discretely Presented Component Unit:*

The Colonial Beach School Board was created by the Town as a separate legal entity to oversee the operations and management of its publicly funded primary and secondary schools. While the Town does not appoint members to the Board, the Town approves the School Board’s budget and issues debt for the School Board’s benefit and provides significant funding for operations. The School Board does not issue separate financial reports.

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

##### *Government-Wide 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 non-fiduciary activities of the primary government and its component units. *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. Likewise, *the primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

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

The government-wide 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 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. Prepaid expenses are accounted for using the purchases method. Under this method, prepaid expenses are reported as expenditures when paid.

Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the Town, are recognized as revenues and amounts receivable when the underlying exchange transaction occurs, which is generally two months preceding receipt by the town. Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of specific funding are recognized when earned or at the time of the specific reimbursable expenditures. Revenues from general purpose grants are recognized during the period in which the grants apply.

The Town reports the following major governmental funds:

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

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *erosion fund* is used to account for financial resources accumulated to be used for beach erosion.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

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

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the water treatment plant and the water distribution system.

The *sewer fund* accounts for the activities of the wastewater treatment plant and the wastewater collection system.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary fund 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 *non-operating* 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 and sewer fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the operating definition are reported as non-operating revenues and expenses.

The Town bills residential customers quarterly prior to utility services being performed and recognizes the revenue at the time of billing. This is not considered in conformity with accounting principles generally accepted in the United States of America. Management has evaluated the effect of this billing procedure and revenue recognition practice and has determined that the effect on the financial statements is immaterial.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**D. Budgets and Budgetary Accounting**

The following procedures are used by the Town in establishing 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 the following July 1. This 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 Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the functional level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each function can be revised only by Town Council. The School Board is authorized to transfer budgeted amounts within the school system's departmental categories.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- 7) Appropriations lapse on June 30 for all Town units.
- 8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

At June 30, total expenditures related to principal retirement and interest and fiscal charges for the School Board exceeded budgeted amounts by \$20,870.

**E. Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**F. Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis.

**G. Estimates**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**H. Restricted Assets**

Certain proceeds of the Town's bonds are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

**I. Capital Assets**

Capital assets, which include property, plant, and equipment, 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 one year. 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.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings and utility plant	5-50
Infrastructure	30
Improvements other than buildings	20
Vehicles and equipment	5-20



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

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

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has five of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third deferred inflow results from participation in the Virginia Retirement System's teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate. The fourth item represents differences between expected and actual experience in the pension plan. This difference will be recognized in pension expense over a closed five year period. Finally, the fifth item represents unearned revenue related to the prepayment of taxes not due until 2016.

**K. Compensated Absences**

Town employees earn annual leave at a rate of 8 to 12 hours per month, depending on years of service, up to 240 hours. Accumulated annual leave up to 240 hours is paid upon termination.

Employees of the School Board, who retire under the Virginia Retirement System, receive \$30 a day for any unused sick leave up to a maximum of 150 days. All employees who are classified as full-time twelve-month employees are entitled to annual leave and shall be paid per diem upon retirement or termination (based on their final annual salary) for their unused annual leave.

All annual leave and sick pay currently payable is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**L. Pension**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**M. Long-term Obligations**

In the government-wide financial statements, and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities.

**N. Net Position/Fund Balance**

Net position in government-wide and proprietary financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

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 fund. 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 constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** - Amounts the Town intends to use for a specified purpose; intent can be expressed by Town Council or by the Town Manager who has been granted this authority.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**O. 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.

**P. Minimum Fund Balance Policy**

The Town's policy is to maintain an unassigned fund balance in the general fund equal to 15% of expenditures/operating revenues.

**Q. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. General fund encumbrances are \$350,000 as of June 30.

**R. School Board Debt/Capital Asset Reporting**

During fiscal year 2016, the Town issued debt to finance the construction of school facilities because the School Board does not have borrowing or taxing authority. The Town reports this debt, whereas the School Board reports the related assets. As a result, in the Statement of Net Position (Exhibit 1), the school related debt reduces *unrestricted net position* for the primary government, while the assets are reported in *net investment in capital assets* for the School Board.

**Note 2. Deposits and Investments**

**Deposits**

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and 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 COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**Investments**

**Investment Policy:**

Statutes authorize the Town to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank); the Asian Development Bank; the African Development Bank; “prime quality” commercial paper and certain corporate notes; banker’s acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer’s Local Government Investment Pool (LGIP).

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 one year from the date of purchase.

**Credit Risk:**

As required by state statute, commercial paper must 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, and 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 & 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-end 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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

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

**Investments (Continued)**

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

	<b><u>Primary Government</u></b>	<b><u>Component Unit – School Board</u></b>
Demand deposits	\$ 4,682,232	\$ 751,357
Certificates of deposit	549,671	-
SNAP	-	7,977,826
	<hr/>	<hr/>
Total deposits and investments	\$ 5,231,903	\$ 8,729,183
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation to Statement of Net Position – Exhibit 1:		
Cash and cash equivalents	\$ 4,686,535	\$ 751,357
Cash and cash equivalents, restricted	545,368	7,977,826
	<hr/>	<hr/>
Total deposits and investments	\$ 5,231,903	\$ 8,729,183
	<hr/> <hr/>	<hr/> <hr/>

**Interest Rate Risk:**

The Town does not have a formal policy limiting investment maturities.

**Custodial Credit Risk:**

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, all of the Town’s investments are held in a bank’s trust department in the Town’s name. The School Board’s investments consisted of SNAP funds totaling \$7,977,826 which have an S&P credit rating of AAAm.

**Restricted Amounts:**

Restricted cash and cash equivalents consist of amounts held for debt retirement as required by a debt agreement and unspent proceeds from the master equipment lease entered into during 2015. Restricted cash and cash equivalents for the School Board consist of unspent proceeds from school capital project bonds issued during fiscal year 2016. These funds are held in SNAP investments.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 3. Receivables and Due from Other Governments**

The following amounts represent receivables at June 30:

	<b>Governmental Type Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>Component Unit- School Board</b>
Accounts receivable:				
Taxes	\$ 369,074	\$ -	\$ 369,074	\$ -
Other	-	394,763	394,763	2,310
Gross receivables	369,074	394,763	763,837	2,310
Less: allowance for uncollectibles	(97,491)	(51,463)	(148,954)	-
Receivables, net	<u>\$ 271,583</u>	<u>\$ 343,300</u>	<u>\$ 614,883</u>	<u>\$ 2,310</u>
Due from other governments:				
Communications tax	\$ 32,098	\$ -	\$ 32,098	\$ -
Sales tax	38,333	-	38,333	111,166
Grant reimbursement	110,122	-	110,122	53,683
Medicaid	-	-	-	20,600
Other state funds	1,034	-	1,034	10,507
Other	-	-	-	-
County	2,383	106,415	156,798	-
Total due from other governments	<u>\$ 183,970</u>	<u>\$ 106,415</u>	<u>\$ 338,385</u>	<u>\$ 195,956</u>

The County owes the sewer fund \$154,415 for its required contribution to the 2008 sewer plant upgrade.

**Note 4. Interfund Receivables, Payables, and Transfers**

The Component Unit School Board has an obligation of \$339,648 to the general fund resulting from deficits in prior years. Currently there are no plans to liquidate this obligation. As a result, it is reflected as nonspendable fund balance in the general fund. In addition, the Component Unit School Board also has an obligation for \$9,056 for overdrawn cash.

The composition of interfund transfers is as follows:

<b>Transfer Out Fund</b>	<b>Transfer In Fund</b>	<b>Amount</b>
Capital Improvement	General	\$ 685,481

The transfers from the capital improvement fund to the general fund were to assist with improvements for the downtown revitalization and public bathroom projects.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 5. Capital Assets**

**Primary Government**

Capital asset activity for the year is as follows:

<b><u>Governmental Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital asset, not depreciated:				
Land	\$ 1,395,942	\$ 64,388	\$ -	\$ 1,460,330
Construction in progress	-	605,030	-	605,030
Total capital assets not depreciated	1,395,942	669,418	-	2,065,360
Capital assets, depreciated:				
Buildings and improvements	798,870	16,750	(9,300)	806,320
Infrastructure	8,710,694	-	-	8,710,694
Equipment	726,079	34,015	-	760,094
Vehicles	1,106,421	117,592	(365,192)	858,821
Total capital assets	11,342,064	168,357	(374,492)	11,135,929
Less accumulated depreciation:				
Buildings and improvements	(310,719)	(16,683)	4,325	(323,077)
Infrastructure	(1,699,589)	(580,713)	-	(2,280,302)
Equipment	(530,380)	(42,903)	-	(573,283)
Vehicles	(799,189)	(77,596)	358,840	(517,945)
Total accumulated depreciation	(3,339,877)	(717,895)	363,165	(3,694,607)
Total capital assets, depreciated, net	8,002,187	(549,538)	(11,327)	7,441,322
Governmental activities capital assets, net	<u>\$ 9,398,129</u>	<u>\$ 119,880</u>	<u>\$ (11,327)</u>	<u>\$ 9,506,682</u>

During fiscal year 2014, there was a fire at the old high school building that was no longer in use by the Schools, but which they still owned. During fiscal year 2016, the Town paid for the demolition of the old high school building. As compensation for the demolition, the Schools transferred land at Douglas Avenue to the Town, with a value of \$64,388.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 5. Capital Assets (Continued)**

**Primary Government (Continued)**

<b><u>Business-Type Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital asset, not depreciated:				
Land	\$ 29,280	\$ -	\$ -	\$ 29,280
Construction in progress	248,959	158,558	(257,092)	150,425
Total capital assets not depreciated	278,239	158,558	(257,092)	179,705
Capital assets, depreciated:				
Utility plant	27,647,131	307,221	-	27,954,352
Equipment	333,028	46,754	-	379,782
Vehicles	452,272	181,400	(5,700)	627,972
Total capital assets depreciated	28,432,431	535,375	(5,700)	28,962,106
Less accumulated depreciation:				
Buildings and improvements	(9,823,990)	(609,399)	-	(10,433,389)
Equipment	(218,361)	(18,776)	-	(237,137)
Vehicles	(245,665)	(57,073)	5,700	(297,038)
Total accumulated depreciation	(10,288,016)	(685,248)	5,700	(10,967,564)
Total capital assets depreciated, net	18,144,415	(149,873)	-	17,994,542
Business-type activities capital assets, net	<u>\$ 18,422,654</u>	<u>\$ 8,685</u>	<u>\$ (257,092)</u>	<u>\$ 18,174,247</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 26,594
Public safety	29,320
Public works	660,681
Community development	1,300
	<u>\$ 717,895</u>



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 5. Capital Assets (Continued)**

**Primary Government (Continued)**

Business-type activities:

Water	\$ 92,752
Sewer	<u>592,496</u>
	<u>\$ 685,248</u>

**Component Unit – School Board**

	<b>Beginning Balance As restated (Note 15)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital asset, not depreciated:				
Land, as restated	\$ 121,598	\$ -	\$ (64,388)	\$ 57,210
Construction in progress	<u>167,038</u>	<u>958,771</u>	<u>(443,038)</u>	<u>682,771</u>
Total capital assets not depreciated	<u>288,636</u>	<u>958,771</u>	<u>(507,426)</u>	<u>739,981</u>
Capital assets, depreciated:				
Buildings and improvements	3,439,442	753,239	(26,918)	4,165,763
Equipment	28,778	62,458	-	91,236
Vehicles	<u>642,306</u>	<u>130,465</u>	<u>-</u>	<u>772,771</u>
Total capital assets, depreciated	<u>4,110,526</u>	<u>946,162</u>	<u>(26,918)</u>	<u>5,029,770</u>
Less accumulated depreciation:				
Buildings and improvements	(1,469,179)	(138,230)	22,880	(1,584,529)
Equipment	(10,848)	(6,784)	-	(17,632)
Vehicles	<u>(414,742)</u>	<u>(63,886)</u>	<u>-</u>	<u>(478,628)</u>
Total accumulated depreciation	<u>(1,894,769)</u>	<u>(208,900)</u>	<u>22,880</u>	<u>(2,080,789)</u>
Total capital assets, depreciated, net	<u>2,215,757</u>	<u>737,262</u>	<u>(4,038)</u>	<u>2,948,981</u>
School board capital assets, net	<u>\$ 2,504,393</u>	<u>\$ 1,696,033</u>	<u>\$ (511,464)</u>	<u>\$ 3,688,962</u>

All depreciation expense of the School Board was charged to the education function.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 6. Unavailable/Unearned Revenue**

Governmental funds report unavailable/unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At year end, unavailable and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 154,536	\$ -	\$ 154,536
Sales and communications taxes	36,400	-	36,400
Property taxes paid in advance	<u>-</u>	<u>94,670</u>	<u>94,670</u>
Totals	<u>\$ 190,936</u>	<u>\$ 94,670</u>	<u>\$ 285,606</u>

Unavailable revenue for the School Board consists of sales tax revenue of \$49,996.

**Note 7. Long-Term Debt**

**Primary Government**

The following is a summary of the long-term debt activity for the year ended June 30:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 2,246,652	\$ 8,630,000	\$ 220,329	\$ 10,656,323	\$ 213,938
Bond premium	-	333,022	7,400	325,622	11,101
Capital lease	288,844	-	27,265	261,579	28,560
Compensated absences	<u>92,127</u>	<u>87,351</u>	<u>76,753</u>	<u>102,725</u>	<u>85,583</u>
Governmental activities long-term liabilities	<u>\$ 2,627,623</u>	<u>\$ 9,050,373</u>	<u>\$ 331,747</u>	<u>\$ 11,346,249</u>	<u>\$ 339,182</u>
<b>Business-type Activities:</b>					
General obligation bonds	\$ 8,138,501	\$ -	\$ 328,572	\$ 7,809,929	\$ 394,597
Revenue bonds	69,300	-	69,300	-	-
Capital lease	407,356	-	39,235	368,121	39,440
Compensated absences	<u>33,630</u>	<u>40,383</u>	<u>31,884</u>	<u>42,129</u>	<u>34,817</u>
Business-type activities long-term liabilities	<u>\$ 8,648,787</u>	<u>\$ 40,383</u>	<u>\$ 468,991</u>	<u>\$ 8,220,179</u>	<u>\$ 468,854</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 7. Long-Term Debt (Continued)**

**Primary Government (Continued)**

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

<b>Fiscal Year</b>	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 242,498	\$ 673,538	\$ 434,037	\$ 173,210	\$ 676,535	\$ 846,748
2018	194,300	377,081	379,773	164,963	574,073	542,044
2019	300,622	367,734	385,234	157,601	685,856	525,335
2020	313,258	355,271	390,588	150,146	703,846	505,417
2021	318,384	345,163	392,569	142,566	710,953	487,729
2022-2026	1,676,237	1,411,953	1,890,860	600,268	3,567,097	2,012,221
2027-2031	1,777,340	1,200,298	1,325,423	438,845	3,102,763	1,639,143
2032-2036	2,020,263	885,161	1,053,889	290,086	3,074,152	1,175,247
2037-2041	1,850,000	571,515	570,363	169,560	2,420,363	741,075
2042-2046	2,225,000	209,607	496,602	116,265	2,721,602	325,872
2047-2051	-	-	534,193	64,391	534,193	64,391
2052-2056	-	-	292,173	16,075	292,173	16,075
2057-2061	-	-	32,346	896	32,346	896
	<u>\$ 10,917,902</u>	<u>\$ 6,397,321</u>	<u>\$ 8,178,050</u>	<u>\$ 2,484,872</u>	<u>\$ 19,095,952</u>	<u>\$ 8,882,193</u>

**Details of Long-term Indebtedness**

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
General Obligation Public Improvement and Refunding Bond	3.46%	2004	2017	\$ 1,815,000	\$ 139,683	\$ 70,529
RUS Sewer Loan	4.50	1999	2039	1,161,000	-	875,567
General Obligation Public Improvement Bonds	0.0	2008	2029	2,672,000	-	1,551,788
General Obligation Public Improvement Bonds	2.50	2010	2050	1,088,000	-	960,954
USDA Rural Development Note Payable	4.25	2011	2026	265,428	-	198,421
General Obligation Sewer Bonds	1.875	2013	2053	2,460,000	-	2,414,310
General Obligation Public Improvement Bonds	3.094	2014	2035	1,946,000	1,239,140	635,860
General Obligation Public Improvement and Refunding Bond	2.65	2015	2035	1,775,000	647,500	1,102,500
Master Equipment Lease	2.31	2015	2024	718,000	261,579	368,121
Virginia Public School Authority Bonds	3.52	2015	2046	8,630,000	8,630,000	-
					<u>\$ 10,917,902</u>	<u>\$ 8,178,050</u>

(Continued)

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 7. Long-Term Debt (Continued)**

**Primary Government (Continued)**

**Current Year New Issue**

In September 2015, the Town issued \$8,630,000 in Virginia Public School Authority bonds, Series 2015C, with an interest rate of 3.52%. These bonds were issued to provide financing for School Board capital projects. The Town and School Board agreed for the School Board to report the assets related to the school capital projects. Since the Town is financially liable for the bonds, the Town is reporting the debt.

**School Board**

The following is a summary of long-term debt activity for the year ended June 30:

<b><u>Governmental Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within One Year</u></b>
Capital leases	\$ 35,747	\$ 99,019	\$ 56,738	\$ 78,028	\$ 18,651
Compensated absences	124,250	3,289	18,770	108,769	8,683
Other post-employment benefits	6,000	-	2,717	3,283	3,283
Governmental Activities long-term liabilities	<u>\$ 165,997</u>	<u>\$ 102,308</u>	<u>\$ 78,225</u>	<u>\$ 190,080</u>	<u>\$ 30,617</u>

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

<b><u>Fiscal Year</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2017	\$ 18,651	\$ 2,341
2018	19,210	1,781
2019	19,787	1,205
2020	20,380	612
	<u>\$ 78,028</u>	<u>\$ 5,939</u>

The capital lease outstanding at June 30, 2016 is a five year lease maturing July 20, 2019 with a 3% interest rate.

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

#### Note 8. Defined Benefit Pension Plan

##### Plan Description

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

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

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

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Plan 1 (Continued)**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

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

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

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

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



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Vesting –**
  - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component:** See definition under Plan 1.
  - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

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

**Employees Covered by Benefit Terms**

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

	<u><b>Number</b></u>
Inactive members or their beneficiaries currently receiving benefits	<u>38</u>
Inactive members:	
Vested inactive members	12
Non-vested inactive members	36
Inactive members active elsewhere in VRS	<u>30</u>
Total inactive members	78
Active members	<u>49</u>
Total covered employees	<u><u>165</u></u>

(Continued)

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Contributions**

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 12.40% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$220,109 and \$215,339 for the years ended June 30, 2016 and June 30, 2015, respectively.

**Net Pension Liability (Asset)**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions**

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

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

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

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

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

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

**Long-Term Expected Rate of Return**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

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

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

**Discount Rate**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Changes in Net Pension Liability (Asset)**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) – (b)</b>
Balances at June 30, 2014	\$ 6,667,829	\$ 5,727,199	\$ 940,630
Changes for the year:			
Service cost	257,385	-	257,385
Interest	457,665	-	457,665
Differences between expected and actual experience	(1,641,581)	-	(1,641,581)
Contributions – employer	-	231,278	(231,278)
Contributions – employee	-	110,540	(110,540)
Net investment income	-	265,605	(265,605)
Benefit payments, including refunds of employee contributions	(259,529)	(259,529)	-
Administrative expenses	-	(3,505)	3,505
Other changes	-	(57)	57
Net changes	(1,186,060)	344,332	(1,530,392)
Balances at June 30, 2015	\$ 5,481,769	\$ 6,071,531	\$ (589,762)

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

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

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's net pension liability (asset)	\$ 102,231	\$ (589,762)	\$ (1,166,285)

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

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

For the year ended June 30, 2016, the political subdivision recognized pension income of \$(562,584). At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 934,003
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	150,648
Employer contributions subsequent to the measurement date	<u>220,109</u>	<u>-</u>
Total	<u><u>\$ 220,109</u></u>	<u><u>\$ 1,084,651</u></u>

The \$220,109 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>(Reduction) to Pension Expense</b>
2017	\$ (766,997)
2018	(285,844)
2019	(59,420)
2020	27,610

**Payables to the Pension Plan**

At June 30, 2016, approximately \$25,776 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 9. Defined Benefit Pension Plan – Teacher Cost Sharing Plan**

**General Information about the Teacher Cost Sharing Plan**

***Plan Description***

All full-time, salaried permanent (professional) employees of Virginia school divisions, including the Town of Colonial Beach Schools, (the “School Division”), are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is a multiple employer cost-sharing plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia.

Prior to the adoption of GASB Statement No. 68 in fiscal year 2015, Virginia local school divisions were required to disclose information about their contributions to the teacher cost-sharing plan, but not report a proportionate share of the plan’s net pension liability. Upon adoption of the new pension standards in 2015, the School Division now reports its proportionate share of the plan’s net pension liability as well as certain other deferred inflows and/or outflows as disclosed below.

Plan participants are covered under three different benefit structures – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described in Note 8.

***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division’s contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The amount of this transfer allocated to the School Division, included in operating grants and contributions in the statement of activities, was \$84,000. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer.

The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the school division were \$501,479 and \$509,131 for the years ended June 30, 2016 and June 30, 2015, respectively.



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 9. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)**

**General Information about the Teacher Cost Sharing Plan (Continued)**

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

At June 30, 2016, the school division reported a liability of \$5,506,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. The school division's proportion was 0.44% at June 30, 2015 and 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$382,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 76,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	337,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	86,000
Employer contributions subsequent to the measurement date	<u>501,479</u>	<u>-</u>
Total	<u>\$ 501,479</u>	<u>\$ 499,000</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 9. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)**

**General Information about the Teacher Cost Sharing Plan (Continued)**

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

The \$501,479 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>(Reduction) to Pension Expense</b>
2017	\$ (170,000)
2018	(170,000)
2019	(170,000)
2020	28,000
2021	(17,000)

***Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	\$ 8,056,000	\$ 5,506,000	\$ 3,405,000

***Pension Plan Fiduciary Net Position***

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## **TOWN OF COLONIAL BEACH, VIRGINIA**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

#### **Note 10. Property Taxes**

The Town collects real property taxes semi-annually and personal property taxes annually. Real and personal property in the Town is assessed by the Commissioner of Revenue of the County. Town Council adopts tax rates in May of each year as a part of the budget process. Real property taxes are levied and attached as an enforceable lien, as of January 1st for a calendar year; penalties and interest accrue on all unpaid balances as of these dates. Personal property taxes are levied as of January 1st and are due on December 5th of each year; penalties and interest accrue on all unpaid balances on these dates. The Town bills and collects its own property taxes.

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5 and December 5), less an allowance for uncollectibles. The installment due on December 5 is not included as revenue since these taxes are for use in the next fiscal year. Liens are placed on the property on the date real estate taxes are delinquent, and must be satisfied prior to the sale or transfer of the property.

The tax rate was \$0.68 per \$100 of assessed value during the current year. Starting in 2016, \$0.02 per \$100 collected is restricted for the School Board.

Personal property tax assessments are based upon a percentage of fair market value on January 1 of each year. Motor vehicles are assessed at 50% of fair market value and the tax may be prorated for the length of time the vehicle has status in the Town. Personal property taxes do not create a lien on property. The tax rate was \$4.00 per \$100 of assessed value during the current year.

#### **Note 11. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in a public entity risk pool which provides coverage for all of these risks of loss. Settled claims from these risks have not exceeded coverage in any of the past three fiscal years. The Town is not self-insured.

#### **Note 12. 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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 13. Commitments and Contingencies**

Contingent Liabilities:

There are certain litigation claims pending against the Town. In the opinion of the Town management in consultation with legal counsel, any potential monetary resolution of these cases would not be material.

State Water Control Board Enforcement Action:

In 2007, the State Water Control Board issued an action against the Town. The Town must make planned improvements to the sewer system before the consent order will be released. Although the Town completed improvements to the wastewater treatment plant during 2014, they are still under the consent order.

Construction Contracts

The Schools had several construction contracts outstanding at June 30. The contract with RRMM Architects for the new elementary school project totaling \$609,321 had amounts remaining of \$122,401 at year end. The contract with Southwood Building Systems, Inc. for the new elementary school project totaling \$7,161,500 had amounts remaining of \$7,059,056 at year end. The contract with Skanska for the new elementary school project totaling \$188,000 had amounts remaining of \$124,559 at year end.

**Note 14. School Other Post-Employment Benefits Plan**

The Schools previously had an Other Post-Employment Benefits Plan. In fiscal year 2013, the Schools withdrew the plan; however, there was one retired employee receiving benefits under the plan prior to the dissolution. The School Board has agreed to allow the employee to remain on the plan until age 65 in June 2017. The Schools have recorded a liability for the School's portion of the benefit.

**Note 15. Prior Period Restatement**

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

	<b>Discretely Component- Unit School Board</b>
Net position, June 30, 2015, as previously stated	\$ (2,531,322)
To record previous disposals of land	(50,610)
Net position, June 30, 2015, as restated	<u>\$ (2,581,932)</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016

#### Note 16. New Accounting Standards

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

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

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

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

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016**

**Note 16. New Accounting Standards (Continued)**

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

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

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

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

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

# **REQUIRED SUPPLEMENTARY INFORMATION**

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## TOWN OF COLONIAL BEACH, VIRGINIA

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

	Plan Year	
	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 257,385	\$ 256,695
Interest on total pension liability	457,665	426,010
Difference between expected and actual experience	(1,641,581)	-
Benefit payments, including refunds of employee contributions	(259,529)	(201,467)
Changes in assumptions	-	-
Net change in total pension liability	(1,186,060)	481,238
<b>Total pension liability (beginning)</b>	<u>6,667,829</u>	<u>6,186,591</u>
<b>Total pension liability (ending)</b>	<u><u>\$ 5,481,769</u></u>	<u><u>\$ 6,667,829</u></u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 231,278	\$ 177,284
Contributions - employee	110,540	92,907
Net investment income	265,605	779,244
Benefit payments, including refunds of employee contributions	(259,529)	(201,467)
Administrative expenses	(3,505)	(4,098)
Other	(57)	41
Net change in plan fiduciary net position	344,332	843,911
<b>Plan fiduciary net position - beginning</b>	<u>5,727,199</u>	<u>4,883,288</u>
<b>Plan fiduciary net position - ending</b>	<u><u>\$ 6,071,531</u></u>	<u><u>\$ 5,727,199</u></u>
<b>Net pension liability (asset) - ending</b>	<u><u>(589,762)</u></u>	<u><u>940,630</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u>111%</u>	<u>86%</u>
Covered employee payroll	<u>\$ 1,763,631</u>	<u>\$ 1,832,052</u>
Net pension liability (asset) as a percentage of covered employee payroll	<u><u>-33%</u></u>	<u><u>51%</u></u>

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

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



## EXHIBIT 11

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**June 30, 2016**

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
<b>Primary Government</b>					
2016	\$ 220,109	\$ 220,109	\$ -	\$ 1,775,664	12.40%
2015	215,339	215,339	-	1,763,631	12.21%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

## EXHIBIT 12

Plan Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>School Board</b>					
2015	0.044%	\$ 5,506,000	\$ 3,138,519	175.43%	71%
2014	0.044%	5,363,000	3,121,667	171.80%	71%

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

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

## EXHIBIT 13

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
<b>School Board</b>					
2016	\$ 501,479	\$ 501,479	\$ -	\$ 3,267,444	15.35%
2015	509,131	509,131	-	3,138,519	16.22%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

## TOWN OF COLONIAL BEACH, VIRGINIA

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from local sources:				
General property taxes:				
Real property	\$ 3,238,400	\$ 3,238,400	\$ 3,231,518	\$ (6,882)
Personal property	510,000	510,000	495,791	(14,209)
Delinquent	112,100	112,100	155,957	43,857
Penalties and interest	55,000	55,000	57,256	2,256
Total general property taxes	3,915,500	3,915,500	3,940,522	25,022
Other local taxes:				
Communication sales and use	200,000	200,000	206,310	6,310
Food and lodging	411,000	411,000	514,925	103,925
Bank stock	40,000	40,000	48,095	8,095
Business license taxes	132,000	132,000	117,876	(14,124)
Local sales and use taxes	200,000	200,000	205,752	5,752
Consumer utility taxes	110,000	110,000	101,696	(8,304)
Motor vehicle license	85,000	85,000	78,323	(6,677)
Cigarette tax	70,000	70,000	96,518	26,518
Total other local taxes	1,248,000	1,248,000	1,369,495	121,495
Permits, fees, and licenses	213,500	213,500	159,853	(53,647)
Charges for services	91,457	91,457	109,224	17,767
Use of money and property:				
Interest	9,235	9,235	14,322	5,087
Rental of property	14,610	14,610	15,980	1,370
Total use of money and property	23,845	23,845	30,302	6,457
Miscellaneous	10,935	10,935	20,755	9,820
Intergovernmental	1,411,542	2,700,542	1,516,553	(1,183,989)
Total revenue	6,914,779	8,203,779	7,146,704	(1,057,075)
EXPENDITURES				
General government	1,054,078	1,054,078	935,873	118,205
Public safety	1,428,754	1,442,235	1,393,852	48,383
Public works	1,414,492	2,086,492	1,922,477	164,015
Health and welfare	4,800	4,800	4,800	-
Parks, recreation, and cultural	5,000	5,000	5,000	-
Community development	700,346	1,989,346	846,878	1,142,468
Education	2,297,916	11,260,938	10,812,176	448,762
Debt service:				
Principal retirement	243,860	243,860	247,594	(3,734)
Interest and fiscal charges	89,533	89,533	65,045	24,488
Bond issuance expense	-	-	225,654	(225,654)
Total expenditures	7,238,779	18,176,282	16,459,349	1,716,933
Excess of expenditures over revenues	(324,000)	(9,972,503)	(9,312,645)	659,858
OTHER FINANCING SOURCES				
Issuance of general obligation bonds	-	8,963,022	8,963,022	-
Transfers in	324,000	1,009,481	685,481	(324,000)
Total other financing sources	324,000	9,972,503	9,648,503	(324,000)
Net change in fund balance	\$ -	\$ -	\$ 335,858	\$ 335,858

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2016**

**Note 1. Changes of Benefit Terms**

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

**Note 2. Changes of Assumptions**

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

## **OTHER SUPPLEMENTARY INFORMATION**

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## **DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**

**School Operating Fund** – Accounts for the operations and maintenance of the schools. Financing is provided by state and federal funds, and by appropriations from the Town’s general revenues. State and federal education funds received may be used only for this purpose. Annual appropriations from general revenues are restricted by the Appropriations Resolution to education expenditures.

**School Cafeteria Fund** – Accounts for the operation and maintenance of cafeterias of the schools. Financing is provided primarily from charges for services and federal and state lunch subsidies. Such funds are limited by federal and state law to expenditures for cafeteria operations and maintenance.

**School Capital Improvement Fund** – Accounts for unexpended school funds allowed by Town Council to be carried over to future periods for school related capital projects.

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**  
**COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>School Capital Projects</u>	<u>Total Governmental</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 738,531	\$ -	\$ 12,826	\$ 751,357
Accounts receivable	-	2,310	-	2,310
Due from other governments	180,919	15,037	-	195,956
Restricted cash and cash equivalents	-	-	7,977,826	7,977,826
Total assets	<u>\$ 919,450</u>	<u>\$ 17,347</u>	<u>\$ 7,990,652</u>	<u>\$ 8,927,449</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 537,824	\$ 7,841	112,526	\$ 658,191
Due to primary government	23,855	9,056	315,793	348,704
Total liabilities	<u>561,679</u>	<u>16,897</u>	<u>428,319</u>	<u>1,006,895</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	49,996	-	-	49,996
Total deferred inflows of resources	<u>49,996</u>	<u>-</u>	<u>-</u>	<u>49,996</u>
<b>FUND BALANCES (DEFICITS)</b>				
Restricted:				
Elementary School	-	-	7,865,300	7,865,300
Assigned:				
Education	307,775	450	-	308,225
Unassigned	-	-	(302,967)	(302,967)
Total fund balances	<u>307,775</u>	<u>450</u>	<u>7,562,333</u>	<u>7,870,558</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 919,450</u>	<u>\$ 17,347</u>	<u>\$ 7,990,652</u>	<u>\$ 8,927,449</u>
<b>Total fund balances</b>				<b>\$ 7,870,558</b>
<b>Amounts reported for the School Board's governmental activities in the Statement of Net Position are different because:</b>				
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.				
Nondepreciable			\$ 739,981	
Depreciable, net			<u>2,948,981</u>	3,688,962
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.				
				49,996
Certain expenditures are prepaid but not considered current financial resources in the governmental funds.				
				258,903
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.				
Deferred outflows of resources for 2016 employer contributions			501,479	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments			(337,000)	
Difference between expected and actual experience			(76,000)	
Changes in proportion - teacher cost sharing pool			<u>(86,000)</u>	2,479
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.				
Capital lease			\$ (78,028)	
Compensated absences			(108,769)	
Net pension liability			(5,506,000)	
Net OPEB obligation			<u>(3,283)</u>	(5,696,080)
<b>Net position of governmental activities</b>				<u><u>\$ 6,174,818</u></u>

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2016**

	School Operating	School Cafeteria	School Capital Projects	Total Governmental
<b>REVENUES</b>				
Revenues from the use of money and property	\$ -	\$ -	25,111	25,111
Charges for services	55,107	40,402	-	95,509
Miscellaneous	195,463	-	-	195,463
Payments from primary government	2,299,916	-	8,512,260	10,812,176
Intergovernmental	4,088,853	254,515	-	4,343,368
Total revenue	<u>6,639,339</u>	<u>294,917</u>	<u>8,537,371</u>	<u>15,471,627</u>
<b>EXPENDITURES</b>				
Education	7,361,019	277,318	691,242	8,329,579
Debt service:				
Principal retirement	56,738	-	-	56,738
Interest and fiscal charges	2,132	-	-	2,132
Total expenditures	<u>7,419,889</u>	<u>277,318</u>	<u>691,242</u>	<u>8,388,449</u>
Excess (deficiency) of revenues over expenditures	(780,550)	17,599	7,846,129	7,083,178
<b>OTHER FINANCING SOURCES</b>				
Proceeds from capital lease	99,019	-	-	99,019
Total other financing sources	<u>99,019</u>	<u>-</u>	<u>-</u>	<u>99,019</u>
Net change in fund balances	(681,531)	17,599	7,846,129	7,182,197
<b>FUND BALANCES (DEFICITS), JULY 1</b>	<u>989,306</u>	<u>(17,149)</u>	<u>(283,796)</u>	<u>688,361</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 307,775</u>	<u>\$ 450</u>	<u>\$ 7,562,333</u>	<u>\$ 7,870,558</u>
<b>Net change in fund balances</b>				\$ 7,182,197
<b>Reconciliation of amounts reported for governmental activities in the Statement of Activities:</b>				
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Capital outlays			\$ 1,461,895	
Depreciation expense			<u>(208,900)</u>	1,252,995
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.				
Employer pension contributions			501,479	
Special contribution by State to VRS Teacher Retirement Plan			84,000	
Pension expense			<u>(421,131)</u>	164,348
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.				(9,184)
Assets transferred to and from the primary government that are not considered a current financial resource are reported only in the Statement of Activities for governmental funds.				(64,388)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, there is no effect on net position.				56,738
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.				
Change in prepaids			\$ 258,903	
Change in compensated absences			15,481	
Changed in net OPEB obligation			2,717	
Acquisition of school bus by lease			(99,019)	
Loss on disposition of capital assets			<u>(4,038)</u>	174,044
<b>Change in net position of governmental activities</b>				<u>\$ 8,756,750</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL OPERATING FUND**  
**Year Ended June 30, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Charges for services	\$ 25,000	\$ 25,000	\$ 55,107	\$ 30,107
Miscellaneous	47,245	189,457	195,463	6,006
Payments from primary government	2,299,916	2,299,916	2,299,916	-
Intergovernmental	4,264,460	4,264,460	4,088,853	(175,607)
Total revenues	6,636,621	6,778,833	6,639,339	(139,494)
<b>EXPENDITURES</b>				
Education	6,598,621	7,631,566	7,361,019	270,547
Debt service:				
Principal retirement	38,000	38,000	56,738	(18,738)
Interest and fiscal charges	-	-	2,132	(2,132)
Total expenditures	6,636,621	7,669,566	7,419,889	249,677
Excess (deficiency) of revenues over expenditures	-	(890,733)	(780,550)	110,183
<b>OTHER FINANCING SOURCES</b>				
Proceeds from capital lease	-	-	99,019	99,019
Total other financing sources	-	-	99,019	99,019
Net change in fund balance	\$ -	\$ (890,733)	\$ (681,531)	\$ 209,202



## COMPLIANCE SECTION

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**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 and School Board  
Town of Colonial Beach, 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*, 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, and each major fund of the Town of Colonial Beach, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 29, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as Items 2012-001 and 2012-002, that we consider 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described at Items 2016-001 through 2016-005 in the accompanying schedule of findings and questioned costs.**

## Town of Colonial Beach's Response to Findings

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

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
November 29, 2016

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

To the Honorable Members of Town Council and School Board  
Town of Colonial Beach, Virginia

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Basis for Qualified Opinion on Major Federal Program***

As described in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding major federal program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

***Qualified Opinion on Major Federal Program***

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

### ***Unmodified Opinion on the Other Major Federal Program***

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

### ***Other Matters***

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

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-006 to be a material weakness.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
November 29, 2016

## TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2016

Federal Granting Agency/Recipient State Agency	Award Date	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures in Clusters	Federal Expenditures
<b>U.S. Department of Agriculture</b>					
Commonwealth of Virginia Department of Agriculture and Consumer Services					
Child Nutrition Cluster					
School Breakfast Program	09/01/15	10.553	40591	\$ 68,532	
National School Lunch Program	09/01/15	10.555	40623	169,614	
National School Lunch Program - Commodities	09/01/15	10.555	N/A	25,985	264,131
Total U.S. Department of Agriculture					264,131
<b>U.S. Department of Transportation</b>					
Pass-through payments:					
Virginia Department of Transportation					
Highway Planning and Construction	05/01/12	20.205	60302		14,541
Total U.S. Department of Housing and Urban Development					14,541
<b>U.S. Department of Housing and Urban Development</b>					
Direct payments:					
Community Development Block Grants/Entitlement Grants	05/13/15	14.218	n/a		491,034
Total U.S. Department of Housing and Urban Development					491,034
<b>U.S. Department of Education</b>					
Pass-through payments:					
Commonwealth of Virginia Department of Education:					
Title I - Grants to Local Educational Agencies	07/01/15	84.010	42901		237,027
Special Education - Grants to States	07/01/15	84.027	70110	131,348	
Special Education - Preschool Grants	07/01/15	84.173	62521	11,965	143,313
Career and Technical Education - Basic Grants to States	07/01/15	84.048	60531		7,934
Rural Education	07/01/15	84.358	43481		18,894
Title III, Part A	07/01/15	84.365	60509		84
Improving Teacher Quality State Grants	07/01/15	84.367	61480		18,385
Total U.S. Department of Education					425,637
Total Expenditures of Federal Awards					\$ 1,195,343

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2016**

**I. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") is presented on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

The information presented in this Schedule is presented in accordance with OMB Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Town's CAFR.

**II. Non-Cash Assistance**

The Town participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$25,985 from the National School Lunch Program.

**III. De Minimis Indirect Cost Rate**

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

## **TOWN OF COLONIAL BEACH, VIRGINIA**

### **SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2016**

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

#### **STATE COMPLIANCE MATTERS**

##### *Code of Virginia*

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

##### *State Agency Requirements*

Education

Urban Highway Maintenance

#### **FEDERAL COMPLIANCE MATTERS**

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

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



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

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

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Two material weaknesses** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **One material weakness** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses a **qualified opinion** on the Community Development Block Grant and an **unmodified opinion** on all other programs.
6. The audit disclosed **one audit finding** relating to the major programs.
7. The major programs of the Town are:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster	10.553, 10.555
Community Development Block Grant	14.218

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

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

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2012-001: Segregation of Duties (Material Weakness) (Town)**

*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 payroll, accounts payable, accounts receivable, 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:*

Current staffing makes total separation of duties impossible to implement. Management continues to look at each function to minimize risk.

**2012-002: Auditor Adjustments (Material Weakness- Schools)/ (Significant Deficiency – Town)**

*Condition:*

We noted errors which required adjustments to current financial statements, indicating a material weakness or significant deficiency in controls over financial reporting.

*Recommendation:*

The Town and Schools should continue to implement steps to improve its financial reporting process.

*Management's Response:*

There have been significant improvements to our financial reporting process over the years; however, we continue to work with our outside consultants and auditors on issues that arise that are infrequent and unusual in nature to determine proper accounting treatment.

**TOWN OF COLONIAL BEACH, VIRGINIA**

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

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

**2016-006: Community Development Block Program – CFDA Number 14.218 (Material Non-compliance and Material Weakness)**

*Condition:*

The Town and the Northern Neck Planning District Commission (NNPDC) could not provide the required documentation to verify that procurement guidelines were followed in hiring a vendor for one of the contracts tested.

*Criteria:*

The Town is required to follow procurement procedures in hiring vendors and must have procedures in place to oversee consulting managers such as the NNPDC.

*Effect:*

The contract was awarded based on the vendor being a sole source so procurement procedures were not followed. This is the first time that the Town has had this compliance finding.

*Recommendation:*

We recommend that the Town and NNPDC obtain documentation for all sole source vendors.

*Management's Response and Planned Corrective Action:*

The NNPDC has used this vendor on a previous project and VDOT informed them that the vendor was a sole source provider. Due to turnover at VDOT, the Town was unable to verify this determination. In the future, we will retain documentation for all vendors.

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

**2016-001: Highway Maintenance – Weldon Cooper Report Accuracy (Town)**

*Condition:*

The amount of traffic fines submitted on the Weldon Cooper report was not updated for the current year submission.

*Criteria:*

Costs reported on the annual Weldon Cooper Center Local Finance Survey must be allowable costs for the maintenance, construction, or reconstruction of eligible streets.

*Cause:*

The amount submitted on the March 2016 report was for the prior fiscal year.

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

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

**2016-001: Highway Maintenance – Weldon Cooper Report Accuracy (Town) (Continued)**

*Recommendation:*

A review process should be implemented prior to submission of the final report.

*Management's Response:*

The Director of Public Works contacted VDOT to inform them of the error. They will consider implementing a review process for the next submission.

**2016-002: Highway Maintenance – Weldon Cooper Report Submission (Town)**

*Condition:*

The Weldon Cooper report was not submitted by the March 15, 2016 deadline.

*Criteria:*

Local governments receiving street maintenance funds must submit an annual Weldon Cooper Center Local Finance Survey to the State Department of Transportation accounting for payments received and related expenditures by March 15, 2016.

*Cause:*

The report was submitted on April 27, 2016.

*Recommendation:*

Begin report preparation earlier and implement a review process to ensure timely submission.

*Management's Response:*

The Town will consider implementing a new process for the next submission. Management is also considering additional staffing specifically for Highway Funds Administration.

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

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

**2016-003: Unclaimed Property (Schools)**

*Condition:*

We noted seventeen outstanding checks totaling \$8,407.55 for the Schools that are greater than a year old and have not been reported to the Commonwealth as unclaimed property.

*Criteria:*

Local governments are required to file an annual report with the State Treasurer listing all unclaimed property.

*Cause:*

Due to turnover in the School Director of Finance position over the years, the unclaimed property report was not always filed and the outstanding checks have continued to grow. The School Director of Finance investigated outstanding checks during 2016 and the total has decreased from the 2015 audit.

*Recommendation:*

Checks that are older than one year as of the first day of the fiscal year should be reported to the Commonwealth on an unclaimed property report. Submit a report to the State Treasurer each year.

*Management's Response:*

Senior Town management will work with the Superintendent to address this outstanding issue and work with the auditors to develop a permanent solution.

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

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

**2016-005: Virginia Public Procurement Act Compliance (Town)**

*Condition:*

The Town entered into a construction contract of more than \$10,000 without including the proper nondiscrimination clauses as set forth in the Virginia Public Procurement Act.

*Criteria:*

Local governments are required to include proper nondiscrimination clauses in construction contracts greater than \$10,000 in accordance with the Virginia Public Procurement Act.

*Cause:*

The proper nondiscrimination clauses were omitted.

*Recommendation:*

We recommend that the Town review construction contracts entered into to determine if the contracts include the proper nondiscrimination clauses and meet other requirements as set forth in the Virginia Public Procurement Act.

*Managements Response:*

Management is in the process of rewriting and updating all standard contracts to include the proper nondiscrimination clauses.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2016**

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**2015-001: Child Nutrition Cluster Program – CFDA10.553, 10.555 (Material Weakness)**

*Condition:*

Overall, the Schools did not have a knowledgeable individual responsible for oversight of the program resulting in several federal compliance findings.

*Recommendation:*

Training should be provided to those individuals overseeing the program to ensure the Schools are meeting all program requirements.

We recommend additional oversight over the Child Nutrition Cluster awards to ensure proper compliance.

*Current Status:*

We did not detect a similar finding in the current year.

**2015-002: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555**

*Condition:*

The verification of eligibility for school meals was not filed until April 24, 2015.

*Criteria:*

The annual verification report is to be completed and filed by December 15.

*Cause:*

There was a lack of oversight of the program.

*Recommendation:*

Steps should be implemented to ensure that the annual report is file timely.

*Current Status:*

We did not detect a similar finding in the current year.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2016**

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT  
(Continued)**

**2015-003: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555**

*Condition:*

The Schools were charging an amount above the federally mandated cap rate for reduced fee breakfast and lunches.

*Criteria:*

The School should not charge more than \$0.40 and \$0.30 for reduced fee lunches and breakfast, respectively. The fee being charged for reduced lunches was \$0.50 and the fee for breakfast for a portion of the year was \$0.35.

*Effect:*

Total amounts overcharged were approximately \$500 for the year.

*Recommendation:*

Steps should be implemented to ensure that the proper rates are charged for reduced fee breakfast and lunch.

*Current Status:*

We did not detect a similar finding in the current year.

**2015-004: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555**

*Condition:*

The meal claim report for the month of September was not supported by accurate meal counts by category.

*Criteria:*

To receive reimbursement, the locality must submit a meal claim to the administrative agency that is supported by an accurate meal count.

*Effect:*

The errors noted in the September meal claim report totaled \$126.48.

*Context:*

We tested two months during the year and only noted the errors in the September counts.



**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2016**

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT  
(Continued)**

**2015-004: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555 (Continued)**

*Recommendation:*

Steps should be implemented to ensure that the meal claims are supported by accurate counts.

*Current Status:*

We did not detect a similar finding in the current year.

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

**2015-005: Commonwealth of Virginia Disclosure Statements (Schools)**

*Condition:*

All five School officials did not file a statement of economic interest by the December 15, 2014 due date deadlines as required by the *Code of Virginia*. In addition, none of the school officials filed a form for the June 15, 2015 submission.

*Recommendation:*

Steps should be taken to ensure that these statements are filed and in a timely manner.

*Current Status:*

We did not detect a similar finding in the current year.

**2015-006: Highway Maintenance – Work Orders (Town)**

*Condition:*

In our sample of ten work orders charged to highway maintenance, we noted one in which the wrong labor rate was used.

*Recommendation:*

We recommend that all work orders be approved to verify the correct labor rates are used.

*Current Status:*

We did not detect a similar finding in the current year.