

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**FINANCIAL REPORT**  
**JUNE 30, 2013**

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

**TABLE OF CONTENTS**

Page(s)

**INTRODUCTORY SECTION**

Directory of Public Officials.....	i
------------------------------------	---

**FINANCIAL SECTION**

<b>Independent Auditor's Report .....</b>	<b>1-3</b>
---	------------

**Basic Financial Statements**

**Government-Wide Financial Statements:**

Exhibit 1 – Statement of Net Position .....	5
Exhibit 2 – Statement of Activities .....	6

**Fund Financial Statements:**

Exhibit 3 – Balance Sheet – Governmental Funds .....	7
Exhibit 4 – Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	8
Exhibit 5 –Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	9
Exhibit 6 – Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	10
Exhibit 7 – Statement of Net Position – Proprietary Funds .....	11
Exhibit 8 – Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	12
Exhibit 9 – Statement of Cash Flows – Proprietary Funds .....	13
<b>Notes to Financial Statements .....</b>	<b>14-35</b>

**REQUIRED SUPPLEMENTARY INFORMATION**

Exhibit 10 – Schedules of Funding Progress .....	37
Exhibit 11 – Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual- General Fund.....	38

## OTHER SUPPLEMENTARY INFORMATION

### Component Unit Fund Financial Statements:

Exhibit 12 – School Board – Combining Balance Sheet – Governmental Funds .....	41
Exhibit 13 – School Board - Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances –Governmental Funds .....	42
Exhibit 14 – School Board - Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – School Operating Fund .....	43

## COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	45-46
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i> .....	47-48
Schedule of Expenditures of Federal Awards .....	49
Summary of State and Local Compliance Matters.....	51
Schedule of Findings and Questioned Costs .....	52-56

# INTRODUCTORY SECTION

---

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

**TOWN COUNCIL**

Mike Ham, Mayor  
Linda Brubaker  
Wanda Goforth  
Gary Seeber  
L. “Tommy” Edwards  
Timothy E. Curtin  
Jim Chiarello

**OTHER OFFICIALS**

Val Foulds, Town Manager  
Kathleen Flanagan, Town Clerk  
Andrea G. Erard, Town Attorney  
Joan Grant, Chief Financial Officer  
William Seay, Interim Chief of Police  
Robert Murphy, Director of Public Works  
Kathleen Beane, Superintendent of Schools

**SCHOOL BOARD**

Tim Trivett, Chairman  
Vicky Roberson, Vice Chairman  
Scott Foster  
Michelle Payne  
Wayne Kennedy

## FINANCIAL SECTION

---

## **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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2013, 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 units, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2013, 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 schedules of funding progress and budget to actual comparison information for the general fund 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The other supplementary information and 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 financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



*Other Information (Continued)*

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 October 4, 2013, 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  
October 4, 2013

# **BASIC FINANCIAL STATEMENTS**

---

## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION  
June 30, 2013

	Primary Government			Discretely Presented
	Governmental	Business-Type		Component Unit
	Activities	Activities	Totals	School Board
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 2,769,683	\$ 461,550	\$ 3,231,233	\$ 605,685
Receivables, net (Note 3)	296,114	296,327	592,441	2,165
Due from other governments (Note 3)	92,474	104,783	197,257	403,906
Due from component unit (Note 4)	344,521	-	344,521	-
Prepays	-	-	-	67,385
Restricted cash and cash equivalents (Note 2)	-	83,428	83,428	48,248
Capital assets: (Note 5)				
Nondepreciable	1,412,895	1,797,468	3,210,363	172,208
Depreciable, net	8,485,323	15,078,182	23,563,505	1,662,671
Total assets	13,401,010	17,821,738	31,222,748	2,962,268
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	227,435	682,544	909,979	735,939
Accrued interest payable	20,672	33,544	54,216	-
Due to primary government (Note 4)	-	-	-	344,521
Unearned revenue (Note 6)	85,206	-	85,206	48,647
Noncurrent liabilities: (Note 7)				
Due within one year	239,524	673,098	912,622	67,614
Due in more than one year	1,118,621	5,486,617	6,605,238	127,427
Total liabilities	1,691,458	6,875,803	8,567,261	1,324,148
<b>NET POSITION</b>				
Net investment in capital assets	8,639,651	10,739,062	19,378,713	1,834,879
Restricted per debt agreement	-	83,428	83,428	-
Unrestricted	3,069,901	123,445	3,193,346	(196,759)
Total net position	\$ 11,709,552	\$ 10,945,935	\$ 22,655,487	\$ 1,638,120

## TOWN OF COLONIAL BEACH, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Totals	Discretely Presented Component Unit School Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- Type Activities		
Primary Government:								
Governmental activities:								
General government	\$ 933,035	\$ 16,612	\$ -	\$ -	\$ (916,423)		\$ (916,423)	\$ -
Public safety	1,339,183	49,812	93,641	-	(1,195,730)		(1,195,730)	-
Public works	1,885,082	42,404	614,356	-	(1,228,322)		(1,228,322)	-
Health and welfare	5,600	-	-	-	(5,600)		(5,600)	-
Parks, recreation, and cultural	6,567	-	-	-	(6,567)		(6,567)	-
Community development	268,086	59,590	26,312	-	(182,184)		(182,184)	-
Education	1,883,599	-	-	-	(1,883,599)		(1,883,599)	-
Interest on long-term debt	45,870	-	-	-	(45,870)		(45,870)	-
Total governmental activities	6,367,022	168,418	734,309	-	(5,464,295)		(5,464,295)	-
Business-type activities:								
Water	504,546	781,243	-	-		\$ 276,697	276,697	-
Sewer	1,926,450	1,598,731	-	-		(327,719)	(327,719)	-
Total business-type activities	2,430,996	2,379,974	-	-		(51,022)	(51,022)	-
Total primary government	\$ 8,798,018	\$ 2,548,392	\$ 734,309	\$ -	(5,464,295)	(51,022)	(5,515,317)	-
Discretely Presented Component Unit:								
School Board	\$ 6,341,238	\$ 72,697	\$ 4,855,270	\$ -				(1,413,271)
General revenues:								
Taxes:								
General property taxes					3,369,225	-	3,369,225	-
Other local taxes:								
Local sales and use					161,210	-	161,210	-
Food and lodging					319,311	-	319,311	-
Consumer utility and communications sales and use					309,643	-	309,643	-
Other					328,002	-	328,002	-
Contributions from Town					-	-	-	1,883,599
Intergovernmental, non-categorical aid					240,317	-	240,317	-
Gain on sale of town property					71,463	-	71,463	-
Use of money and property					30,501	-	30,501	-
Other					5,002	23,618	28,620	52,918
Special item: Annexation of state roads (Note 5)					8,260,160	-	8,260,160	-
Total general revenues and transfers					13,094,834	23,618	13,118,452	1,936,517
Change in net position					7,630,539	(27,404)	7,603,135	523,246
NET POSITION AT JULY 1, AS RESTATED (Note 15)					4,079,013	10,973,339	15,052,352	1,114,874
NET POSITION AT JUNE 30					\$ 11,709,552	\$ 10,945,935	\$ 22,655,487	\$ 1,638,120

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

## TOWN OF COLONIAL BEACH, VIRGINIA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,397,067	\$ 237,548	\$ 135,068	\$ 2,769,683
Receivables, net (Note 3)	296,114	-	-	296,114
Due from other governments (Note 3)	92,474	-	-	92,474
Due from component unit (Note 4)	344,521	-	-	344,521
Total assets	<u>\$ 3,130,176</u>	<u>\$ 237,548</u>	<u>\$ 135,068</u>	<u>\$ 3,502,792</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 227,435	\$ -	\$ -	\$ 227,435
Deferred revenue (Note 6)	242,466	-	-	242,466
Total liabilities	<u>469,901</u>	<u>-</u>	<u>-</u>	<u>469,901</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term amounts due from component unit	338,487	-	-	338,487
Committed to:				
Capital projects	93,047	-	-	93,047
Assigned for:				
Capital projects	-	237,548	-	237,548
Erosion funds	-	-	135,068	135,068
Unassigned	2,228,741	-	-	2,228,741
Total fund balances	<u>2,660,275</u>	<u>237,548</u>	<u>135,068</u>	<u>3,032,891</u>
Total liabilities and fund balances	<u>\$ 3,130,176</u>	<u>\$ 237,548</u>	<u>\$ 135,068</u>	<u>\$ 3,502,792</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

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

June 30, 2013

<b>Total Fund Balance - Governmental Funds</b>	\$ 3,032,891
--	--------------

**Amounts reported for governmental activities in the Statement of Net Position  
are different because:**

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

Nondepreciable	\$ 1,412,895	
Depreciable, net	<u>8,485,323</u>	9,898,218

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

157,260

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

Bonds payable, including unamortized deferred amounts	\$ (1,258,567)	
Compensated absences	(99,578)	
Accrued interest payable	<u>(20,672)</u>	<u>(1,378,817)</u>

<b>Total Net Position - Governmental Activities</b>	<u><u>\$ 11,709,552</u></u>
---	-----------------------------

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2013**

	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
General property taxes	\$ 3,323,286	\$ -	\$ -	\$ 3,323,286
Other local taxes	1,118,166	-	-	1,118,166
Permits, privilege fees, and regulatory licenses	102,135	-	-	102,135
Charges for services	41,368	-	-	41,368
Use of money and property	30,501	-	-	30,501
Miscellaneous	29,917	-	-	29,917
Intergovernmental	974,626	-	-	974,626
Total revenues	<u>5,619,999</u>	<u>-</u>	<u>-</u>	<u>5,619,999</u>
<b>EXPENDITURES</b>				
Current:				
General government	919,585	-	-	919,585
Public safety	1,332,573	-	-	1,332,573
Public works	1,290,068	-	-	1,290,068
Health and welfare	5,600	-	-	5,600
Parks, recreation, and cultural	5,000	-	-	5,000
Community development	266,275	-	-	266,275
Education	1,883,599	-	-	1,883,599
Debt service:				
Principal retirement (Note 7)	139,711	-	-	139,711
Interest and fiscal charges	47,898	-	-	47,898
Total expenditures	<u>5,890,309</u>	<u>-</u>	<u>-</u>	<u>5,890,309</u>
Excess (deficiency) of revenues over expenditures	<u>(270,310)</u>	<u>-</u>	<u>-</u>	<u>(270,310)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	71,463	-	71,463
Transfers in (Note 4)	25,000	-	-	25,000
Transfers out (Note 4)	-	(25,000)	-	(25,000)
Total other financing sources	<u>25,000</u>	<u>46,463</u>	<u>-</u>	<u>71,463</u>
Net change in fund balance	<u>(245,310)</u>	<u>46,463</u>	<u>-</u>	<u>(198,847)</u>
<b>FUND BALANCES AT JULY 1</b>	<u>2,905,585</u>	<u>191,085</u>	<u>135,068</u>	<u>3,231,738</u>
<b>FUND BALANCES AT JUNE 30</b>	<u><u>\$ 2,660,275</u></u>	<u><u>\$ 237,548</u></u>	<u><u>\$ 135,068</u></u>	<u><u>\$ 3,032,891</u></u>

## 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, 2013**

**Net Change in Fund Balance - Governmental Funds** \$ (198,847)

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

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 26,253	
Depreciation expense	(651,806)	
		(625,553)

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

Road Annexation		8,260,160
-----------------	--	-----------

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

45,940

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net position.

139,711

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

Change in accrued interest	\$ 2,028	
Change in compensated absences	7,100	
		9,128

**Change in Net Position - Governmental Activities** \$ 7,630,539



## TOWN OF COLONIAL BEACH, VIRGINIA

**STATEMENT OF NET POSITION -  
PROPRIETARY FUNDS  
June 30, 2013**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 61,786	\$ 399,764	\$ 461,550
Receivables, net	100,968	195,359	296,327
Total current assets	162,754	595,123	757,877
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	-	83,428	83,428
Intergovernmental receivable (Notes 4 and 15)	-	104,783	104,783
Capital Assets: (Note 5)			
Nondepreciable	2,900	1,794,568	1,797,468
Depreciable, net	2,680,075	12,398,107	15,078,182
Total noncurrent assets	2,682,975	14,380,886	17,063,861
Total assets	2,845,729	14,976,009	17,821,738
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other current liabilities	20,839	661,705	682,544
Accrued interest payable	29,429	4,115	33,544
Compensated absences (Note 7)	4,458	18,669	23,127
Current portion of long-term liabilities (Note 7)	133,039	516,932	649,971
Total current liabilities	187,765	1,201,421	1,389,186
Noncurrent liabilities:			
Long-term debt (Note 7)	1,552,326	3,934,291	5,486,617
Total noncurrent liabilities	1,552,326	3,934,291	5,486,617
Total liabilities	1,740,091	5,135,712	6,875,803
<b>NET POSITION</b>			
Net investment in capital assets	997,610	9,741,452	10,739,062
Restricted per debt agreement	-	83,428	83,428
Unrestricted	108,028	15,417	123,445
Total net position	\$ 1,105,638	\$ 9,840,297	\$ 10,945,935

## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUNDS

Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 735,713	\$ 1,542,481	\$ 2,278,194
Connection fees	45,530	56,250	101,780
Other	3,960	-	3,960
Total operating revenues	785,203	1,598,731	2,383,934
<b>OPERATING EXPENSES</b>			
Personnel	181,730	682,173	863,903
Operating	158,873	736,993	895,866
Depreciation	91,324	458,065	549,389
Total operating expenses	431,927	1,877,231	2,309,158
Operating income (loss)	353,276	(278,500)	74,776
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Insurance reimbursement	-	19,658	19,658
Interest expense	(72,619)	(49,219)	(121,838)
Net nonoperating expenses	(72,619)	(29,561)	(102,180)
Income (loss) before transfers	280,657	(308,061)	(27,404)
<b>TRANSFERS IN (Note 4)</b>	-	11,809	11,809
<b>TRANSFERS OUT (Note 4)</b>	(11,809)	-	(11,809)
Change in net position	268,848	(296,252)	(27,404)
<b>NET POSITION JULY 1, AS RESTATED (Notes 14 and 15)</b>	836,790	10,136,549	10,973,339
<b>NET POSITION JUNE 30</b>	\$ 1,105,638	\$ 9,840,297	\$ 10,945,935

## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS  
Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 739,100	\$ 1,564,211	\$ 2,303,311
Receipts from other sources	3,960	-	3,960
Payments to suppliers	(159,752)	(632,113)	(791,865)
Payments to employees	(178,719)	(678,674)	(857,393)
Net cash provided by operating activities	404,589	253,424	658,013
<b>NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Insurance proceeds	-	19,658	19,658
Proceeds (Repayments of) due to/from other funds	(128,171)	128,171	-
Transfers in	-	11,809	11,809
Transfers out	(11,809)	-	(11,809)
Net cash provided by (used in) noncapital financing activities	(139,980)	159,638	19,658
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	-	(1,103,248)	(1,103,248)
Proceeds from bond issuances	-	832,485	832,485
Principal paid on long-term debt	(128,692)	(612,848)	(741,540)
Interest paid on long-term debt	(74,131)	(49,766)	(123,897)
Proceeds from County for portion of debt	-	91,848	91,848
Net cash used in capital and related financing activities	(202,823)	(841,529)	(1,044,352)
Net increase (decrease) in cash and cash equivalents	61,786	(428,467)	(366,681)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	-	911,659	911,659
Ending at June 30	\$ 61,786	\$ 483,192	\$ 544,978
<b>RECONCILIATION TO EXHIBIT 7</b>			
Cash and investments	\$ 61,786	\$ 399,764	\$ 461,550
Restricted cash	-	83,428	83,428
Total	\$ 61,786	\$ 483,192	\$ 544,978
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 353,276	\$ (278,500)	\$ 74,776
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	91,324	458,065	549,389
Change in assets and liabilities:			
Increase in:			
Receivables, net	(42,143)	(34,520)	(76,663)
Increase (decrease) in:			
Accounts payable and other current liabilities	(879)	104,880	104,001
Compensated absences	3,011	3,499	6,510
Net cash provided by operating activities	\$ 404,589	\$ 253,424	\$ 658,013
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>			
Capital asset purchases included in accounts payable at year end	\$ -	\$ 470,782	\$ 470,782
Capitalized interest	\$ -	\$ 9,619	\$ 9,619

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2013

#### 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 1837 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 any debt issued, 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, 2013**

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

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.

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

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, 2013**

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

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

*Proprietary funds* account for operations that are financed in a manner similar to private business enterprises. The proprietary funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income. The government reports the following proprietary fund:

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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**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. The Town required budget amendments during the year, representing a net decrease of \$4,376 in the general fund.

At June 30, total expenditures related to public safety and health and welfare exceeded budgeted amounts by \$61,536 and \$800, respectively.

**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, 2013**

**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

**J. Deferred Revenue**

Deferred revenue consists of delinquent property taxes and sales tax not collected within 45 days of year end and taxes paid in advance.

**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.



## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

##### **L. 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.

##### **M. 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).

##### **N. Restricted Amounts**

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**O. 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.

**P. 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. There were no significant encumbrances as of June 30.

**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.

**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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**Investments (Continued)**

**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.

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	\$ 2,767,694	\$ 653,933
Certificates of deposit	<u>546,967</u>	<u>-</u>
Total deposits and investments	<u><u>\$ 3,314,661</u></u>	<u><u>\$ 653,933</u></u>
Reconciliation to Statement of Net Position – Exhibit 1:		
Cash and cash equivalents	\$ 3,231,233	\$ 605,685
Cash and cash equivalents, restricted	<u>83,428</u>	<u>48,248</u>
Total deposits and investments	<u><u>\$ 3,314,661</u></u>	<u><u>\$ 653,933</u></u>

**Interest Rate Risk:**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**Investments (Continued)**

**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, the Town has no investments subject to custodial credit risk.

**Restricted Amounts:**

Restricted cash and cash equivalents consist of amounts held for debt retirement as required by a debt agreement.

**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	\$ 358,318	\$ -	\$ 358,318	\$ -
Other	5,244	389,246	394,490	2,165
Gross receivables	363,562	389,246	752,808	2,165
Less: allowance for uncollectibles	(67,448)	(92,919)	(160,367)	-
Receivables, net	<u>\$ 296,114</u>	<u>\$ 296,327</u>	<u>\$ 592,441</u>	<u>\$ 2,165</u>
Due from other governments:				
Communications tax	\$ 32,857	\$ -	\$ 32,857	\$ -
Sales tax	30,395	-	30,395	90,858
Grant reimbursement	21,673	-	21,673	298,941
Medicaid	-	-	-	2,745
Other state funds	7,549	-	7,549	11,362
County	-	104,783	104,783	-
Total due from other governments	<u>\$ 92,474</u>	<u>\$ 104,783</u>	<u>\$ 197,257</u>	<u>\$ 403,906</u>

The County owes the sewer fund \$104,783 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 \$338,487 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. The Component Unit School Board also has an obligation for \$6,034 for overdrawn cash.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 4. Interfund Receivables, Payables, and Transfers (Continued)**

The composition of interfund transfers is as follows:

<b>Transfer Out Fund</b>	<b>Transfer In Fund</b>	<b>Amount</b>
Capital Improvement	General	\$ 25,000
Water	Sewer	\$ 11,809

The transfers from the capital improvement fund to the general fund and from the water fund to the sewer fund were to assist with the purchase of certain items.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 5. Capital Assets**

**Primary Government**

The Town early implemented GASB 69, *Government Combinations and Disposals of Government Operations*, due to the annexation of Town roads from the Virginia Department of Transportation. Since the nature of the transaction was a transfer of operations, the roads were recorded at the State of Virginia's carrying value.

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	\$ -	\$ -	\$ 1,395,942
Construction in progress	-	16,953	-	16,953
Total capital assets not depreciated	1,395,942	16,953	-	1,412,895
Capital assets, depreciated:				
Buildings and improvements	798,870	-	-	798,870
Infrastructure	-	8,260,160	-	8,260,160
Equipment	580,920	9,300	-	590,220
Vehicles	906,552	-	-	906,552
Total capital assets	2,286,342	8,269,460	-	10,555,802
Less accumulated depreciation for:				
Buildings and improvements	(260,670)	(16,683)	-	(277,353)
Infrastructure	-	(550,678)	-	(550,678)
Equipment	(429,551)	(37,304)	-	(466,855)
Vehicles	(728,452)	(47,141)	-	(775,593)
Total accumulated depreciation	(1,418,673)	(651,806)	-	(2,070,479)
Total capital assets, depreciated, net	867,669	7,617,654	-	8,485,323
Governmental activities capital assets, net	<u>\$ 2,263,611</u>	<u>\$ 7,634,607</u>	<u>\$ -</u>	<u>\$ 9,898,218</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**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	387,772	1,380,416	-	1,768,188
Total capital assets not depreciated	417,052	1,380,416	-	1,797,468
Capital assets, depreciated:				
Utility plant	23,387,143	109,978	-	23,497,121
Equipment	246,130	13,234	-	259,364
Vehicles	390,320	-	-	390,320
Total capital assets depreciated	24,023,593	123,212	-	24,146,805
Less accumulated depreciation for:				
Buildings and improvements	(8,195,022)	(505,888)	-	(8,700,910)
Equipment	(177,922)	(9,603)	-	(187,525)
Vehicles	(146,290)	(33,898)	-	(180,188)
Total accumulated depreciation	(8,519,234)	(549,389)	-	(9,068,623)
Total capital assets depreciated, net	15,504,359	(426,177)	-	15,078,182
Business-type activities capital assets, net	<u>\$ 15,921,411</u>	<u>\$ 954,239</u>	<u>\$ -</u>	<u>\$ 16,875,650</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 11,850
Public safety	13,154
Public works	625,235
Parks, recreation, and cultural	<u>1,567</u>
	<u>\$ 651,806</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**Primary Government (Continued)**

Business-type activities:

Water	\$ 91,324
Sewer	<u>458,065</u>
	<u><u>\$ 549,389</u></u>

**Component Unit – School Board**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital asset, not depreciated:				
Land	\$ 172,208	\$ -	\$ -	\$ 172,208
Capital assets, depreciated:				
Buildings and improvements	2,613,370	-	-	2,613,370
Equipment	28,778	-	-	28,778
Vehicles	487,329	194,999	-	682,328
Total capital assets, depreciated	<u>3,129,477</u>	<u>194,999</u>	<u>-</u>	<u>3,324,476</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,214,510)	(79,804)	-	(1,294,314)
Equipment	-	(3,616)	-	(3,616)
Vehicles	(309,056)	(54,819)	-	(363,875)
Total accumulated depreciation	<u>(1,523,566)</u>	<u>(138,239)</u>	<u>-</u>	<u>(1,661,805)</u>
Total capital assets, depreciated, net	<u>1,605,911</u>	<u>56,760</u>	<u>-</u>	<u>1,662,671</u>
School board capital assets, net	<u>\$ 1,778,119</u>	<u>\$ 56,760</u>	<u>\$ -</u>	<u>\$ 1,834,879</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, 2013**

**Note 6. Unearned/Deferred Revenue**

Governmental funds report deferred 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, deferred and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 124,107	\$ -	\$ 124,107
Sales and communications taxes	33,153	-	33,153
Property taxes paid in advance	<u>-</u>	<u>85,206</u>	<u>85,206</u>
Totals	<u>\$ 157,260</u>	<u>\$ 85,206</u>	<u>\$ 242,466</u>

Deferred revenue for the School Board consists of unavailable sales tax revenue of \$37,578 and an unearned grant reimbursement of \$48,647 for a total of \$86,225.

**Note 7. Long-Term Debt**

**Primary Government**

The following is a summary of the long-term debt transactions 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	\$ 1,398,278	\$ -	\$ 139,711	\$ 1,258,567	\$ 147,245
Compensated absences	<u>106,678</u>	<u>91,759</u>	<u>98,859</u>	<u>99,578</u>	<u>92,279</u>
Governmental activities long-term liabilities	<u>\$ 1,504,956</u>	<u>\$ 91,759</u>	<u>\$ 238,570</u>	<u>\$ 1,358,145</u>	<u>\$ 239,524</u>
<b>Business-type Activities:</b>					
General obligation bonds	\$ 4,679,912	\$ 832,485	\$ 677,890	\$ 4,834,507	\$ 586,321
Revenue bonds	1,365,731	-	63,650	1,302,081	63,650
Compensated absences	<u>16,617</u>	<u>30,179</u>	<u>23,669</u>	<u>23,127</u>	<u>23,127</u>
Business-type activities long-term liabilities	<u>\$ 6,062,260</u>	<u>\$ 862,664</u>	<u>\$ 765,209</u>	<u>\$ 6,159,715</u>	<u>\$ 673,098</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**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>
2014	\$ 147,245	\$ 42,883	\$ 649,971	\$ 143,988	\$ 797,216	\$ 186,871
2015	151,202	37,581	313,486	137,168	464,688	174,749
2016	159,820	32,009	406,843	150,361	566,663	182,370
2017	156,628	26,338	358,299	120,894	514,927	147,232
2018	57,304	22,489	269,838	113,635	327,142	136,124
2019-2023	186,450	87,368	1,352,086	481,230	1,538,536	568,598
2024-2028	140,250	52,534	1,278,335	338,727	1,418,585	391,261
2029-2033	103,950	28,437	601,110	224,056	705,060	252,493
2034-2038	155,718	5,144	444,857	104,658	600,575	109,802
2039-2043	-	-	117,038	50,776	117,038	50,776
2044-2048	-	-	117,438	36,122	117,438	36,122
2049-2053	-	-	117,838	21,419	117,838	21,419
2054-2058	-	-	109,449	6,683	109,449	6,683
	<u>\$ 1,258,567</u>	<u>\$ 334,783</u>	<u>\$ 6,136,588</u>	<u>\$ 1,929,717</u>	<u>\$ 7,395,155</u>	<u>\$ 2,264,500</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	\$ 495,648	\$ 262,203
General Obligation Public Improvement and Revenue Bond	4.67% - 14.86%	2005	2035	2,686,000	762,919	1,302,081
General Obligation Public Improvement Bonds	0.0%	1993	2014	6,875,000	-	345,592
RUS Sewer Loan	4.50%	1999	2039	1,161,000	-	937,316
General Obligation Public Improvement Bonds	0.0%	2008	2029	2,672,000	-	1,909,893
General Obligation Public Improvement Bonds	2.50%	2010	2050	1,088,000	-	1,018,153
USDA Rural Development Note Payable	4.25%	2011	2026	265,428	-	242,162
General Obligation Sewer Bonds	1.875%	2013	2053	2,460,000	-	119,188
					<u>\$ 1,258,567</u>	<u>\$ 6,136,588</u>

The Town drew \$119,188 of the 2013 general obligation bonds during the current year and intends to draw the remaining funds for ongoing sewer projects.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**School Board**

The following is a summary of long-term debt transactions 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 lease	\$ -	\$ 87,767	\$ 18,939	\$ 68,828	\$ 16,220
Compensated absences	131,609	-	15,893	115,716	48,770
Other post-employment benefits	553,297	-	542,800	10,497	2,624
Governmental Activities long-term liabilities	<u>\$ 684,906</u>	<u>\$ 87,767</u>	<u>\$ 577,632</u>	<u>\$ 195,041</u>	<u>\$ 67,614</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>
2014	\$ 16,220	\$ 2,719
2015	16,861	2,078
2016	17,527	1,412
2017	18,220	719
	<u>\$ 68,828</u>	<u>\$ 6,928</u>

The capital lease is a five year lease maturing June 30, 2017 with a 3.95% interest rate.

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

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

#### **Note 8. Virginia Retirement System**

##### **Plan Description**

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. 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 for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2013

#### Note 8. Virginia Retirement System (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

#### Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 10.55% of annual covered payroll.

The School Board's required contribution rate was 11.66% of covered payroll for fiscal year 2013. The School Board's required contributions to the teacher cost-sharing pool for professional employees were \$354,172 for 2013, \$356,871 for 2012, and \$280,796 for 2011. In each year, the School Board has contributed 100% of the required contributions.

#### Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$311,194 was equal to the required and actual contributions.

#### Three-Year Trend Information Town

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 311,194	100%	\$ -
June 30, 2012	\$ 224,746	100%	\$ -
June 30, 2011	\$ 260,620	100%	\$ -

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

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

#### **Note 8. Virginia Retirement System (Continued)**

##### **Annual Pension Cost (Continued)**

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

##### **Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 95.04% funded. The actuarial accrued liability for benefits was \$4,592,777, and the actuarial value of assets was \$4,364,950, resulting in an unfunded actuarial accrued liability (UAAL) of \$227,827. The covered payroll (annual payroll of active employees covered by the plan) was \$1,685,594, and the ratio of the UAAL to the covered payroll was 13.52%.

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

#### **Note 9. 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 \$0.58 per \$100 of assessed value during the current year.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 9. Property Taxes (Continued)**

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 10. 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 11. 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.

**Note 12. 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.

Construction Contracts:

The Town has construction contracts with remaining contract amounts totaling approximately \$2,067,000 for improvements to the sewer system as required by the State Water Control Board as noted below. The Town has a USDA loan and grant funds available to meet approximately \$1,500,000 of the construction requirement. The Town has been approved to issue debt to cover the remaining costs.

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.

Police Department Lease:

The Town signed a commercial lease for the police department building for a five year period ending June 30, 2014. The Town pays \$2,500 a month under the lease.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 13. School Other Post-Employment Benefits Plan**

The Schools previously had an Other Post-Employment Benefits Plan. In the current year, 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 the retired employee turns 65 in June 2017. The Schools have recorded a liability for the School's portion of the benefit.

**Note 14. Separation of Water and Sewer Funds**

During the current year, the Town separated the previous water and sewer fund into separate funds due to a debt requirement. The financial statements are shown as if the split occurred at the end of fiscal year 2012.

Financial statement amounts that were tracked separately, such as accounts receivable, accounts payable, revenue and expenses, were separated by account number. Items such as capital assets and debt that had previously been combined in the same accounts were separated by assigning individual debt obligations and capital asset items to each fund based on the nature of the item and its underlying use. Items, such as cash and penalties and interest that were not tracked separately were split based on a percentage of the utility revenues attributed to each fund.

**Note 15. Restatement**

Beginning net position in the sewer fund was increased by \$196,631 to record a long-term receivable from the County for its required contribution for 2008 sewer plant upgrade.

**Note 16. New Accounting Standards**

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The Statement will be effective for the year ending June 30, 2014.



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends *GASB Statement No. 10* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends *GASB Statement No. 62* by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

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

# **REQUIRED SUPPLEMENTARY INFORMATION**

---

## TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULES OF FUNDING PROGRESS**  
**Year Ended June 30, 2013**

**TOWN - VIRGINIA RETIREMENT SYSTEM**

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			Unfunded Actuarial Accrued Liability (UAAL)			
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>		<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
June 30, 2008	\$ 3,738,308	\$ 3,184,235	\$ (554,073)	117.40%	\$ 1,696,728	-32.66%
June 30, 2009	\$ 3,936,379	\$ 3,443,554	\$ (492,825)	114.31%	\$ 1,583,076	-31.13%
June 30, 2010	\$ 4,092,348	\$ 3,998,454	\$ (93,894)	102.35%	\$ 1,615,284	-5.81%
June 30, 2011	\$ 4,271,902	\$ 4,374,336	\$ 102,434	97.66%	\$ 1,727,986	5.93%
June 30, 2012	\$ 4,364,950	\$ 4,592,777	\$ 227,827	95.04%	\$ 1,685,594	13.52%

## TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
GENERAL FUND**

**Year Ended June 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Revenue from local sources:				
General property taxes:				
Real property	\$ 2,825,692	\$ 2,825,692	\$ 2,664,837	\$ (160,855)
Personal property	475,000	475,000	488,893	13,893
Delinquent	95,100	95,100	121,352	26,252
Penalties and interest	50,000	50,000	48,204	(1,796)
Total general property taxes	<u>3,445,792</u>	<u>3,445,792</u>	<u>3,323,286</u>	<u>(122,506)</u>
Other local taxes:				
Communication sales and use	255,000	255,000	209,106	(45,894)
Food and lodging	325,000	325,000	319,311	(5,689)
Bank stock	40,000	40,000	35,732	(4,268)
Business license taxes	140,200	140,200	123,895	(16,305)
Local sales and use taxes	170,000	170,000	161,210	(8,790)
Consumer utility taxes	90,000	90,000	100,536	10,536
Motor vehicle license	100,000	100,000	79,661	(20,339)
Cigarette tax	80,000	80,000	88,715	8,715
Total other local taxes	<u>1,200,200</u>	<u>1,200,200</u>	<u>1,118,166</u>	<u>(82,034)</u>
Permits, fees, and licenses	<u>92,270</u>	<u>92,270</u>	<u>102,135</u>	<u>9,865</u>
Charges for services	<u>37,200</u>	<u>37,200</u>	<u>41,368</u>	<u>4,168</u>
Use of money and property:				
Interest	15,615	15,615	9,614	(6,001)
Rental of property	16,910	16,910	20,887	3,977
Total use of money and property	<u>32,525</u>	<u>32,525</u>	<u>30,501</u>	<u>(2,024)</u>
Miscellaneous	<u>7,900</u>	<u>15,141</u>	<u>29,917</u>	<u>14,776</u>
Intergovernmental	<u>1,348,502</u>	<u>1,445,540</u>	<u>974,626</u>	<u>(470,914)</u>
Total revenue	<u>6,164,389</u>	<u>6,268,668</u>	<u>5,619,999</u>	<u>(648,669)</u>
<b>EXPENDITURES</b>				
General government	1,028,652	1,053,638	919,585	134,053
Public safety	1,265,483	1,271,037	1,332,573	(61,536)
Public works	1,344,973	1,472,014	1,290,068	181,946
Health and welfare	4,800	4,800	5,600	(800)
Parks, recreation, and cultural	5,000	5,000	5,000	-
Community development	710,735	724,606	266,275	458,331
Education	1,758,496	1,921,496	1,883,599	37,897
Debt service:				
Principal retirement	141,612	141,612	139,711	1,901
Interest and fiscal charges	50,262	50,262	47,898	2,364
Total debt service	<u>191,874</u>	<u>191,874</u>	<u>187,609</u>	<u>4,265</u>
Total expenditures	<u>6,310,013</u>	<u>6,644,465</u>	<u>5,890,309</u>	<u>754,156</u>
Excess (deficiency) of revenue over expenditures	<u>(145,624)</u>	<u>(375,797)</u>	<u>(270,310)</u>	<u>105,487</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	150,000	375,897	25,000	(350,897)
Total other financing sources	<u>150,000</u>	<u>375,897</u>	<u>25,000</u>	<u>(350,897)</u>
Net change in fund balance	<u>\$ 4,376</u>	<u>\$ 100</u>	<u>\$ (245,310)</u>	<u>\$ (245,410)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

---

## **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, 2013**

	<b>School Operating</b>	<b>School Cafeteria</b>	<b>School Capital Projects</b>	<b>Total Governmental</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 571,677	\$ -	\$ 34,008	\$ 605,685
Cash and cash equivalents, restricted	48,248	-	-	48,248
Accounts receivable	-	2,165	-	2,165
Due from other governments	403,906	-	-	403,906
Total assets	<u>\$ 1,023,831</u>	<u>\$ 2,165</u>	<u>\$ 34,008</u>	<u>\$ 1,060,004</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 722,468	\$ 13,471	\$ -	\$ 735,939
Deferred revenue	86,225	-	-	86,225
Due to primary government	20,683	6,034	317,804	344,521
Total liabilities	<u>829,376</u>	<u>19,505</u>	<u>317,804</u>	<u>1,166,685</u>
<b>FUND BALANCES (DEFICITS)</b>				
Assigned	194,455	-	-	194,455
Unassigned	-	(17,340)	(283,796)	(301,136)
Total fund balances (deficits)	<u>194,455</u>	<u>(17,340)</u>	<u>(283,796)</u>	<u>(106,681)</u>
Total liabilities and fund balances (deficits)	<u>\$ 1,023,831</u>	<u>\$ 2,165</u>	<u>\$ 34,008</u>	<u>\$ 1,060,004</u>
<b>Total fund balances (deficits)</b>				<b>\$ (106,681)</b>

**Amounts reported for the School Board's governmental activities in the Statement of Net Position are different because:**

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

Nondepreciable	\$ 172,208	
Depreciable, net	<u>1,662,671</u>	1,834,879

Certain receivables are available to pay for current-period expenditures and therefore are deferred in the funds.

37,578

Certain expenditures are prepaid but not considered current financial resources in the governmental funds.

67,385

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	\$ (68,828)	
Compensated absences	(115,716)	
Net OPEB obligation	<u>(10,497)</u>	(195,041)

**Net position of governmental activities**

\$ 1,638,120

**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, 2013**

	School Operating	School Cafeteria	School Capital Projects	Total Governmental
<b>REVENUES</b>				
Charges for services	\$ 31,175	\$ 41,522	\$ -	\$ 72,697
Miscellaneous	52,918	-	-	52,918
Payments from primary government	1,883,599	-	-	1,883,599
Intergovernmental	4,700,662	155,761	-	4,856,423
Total revenue	6,668,354	197,283	-	6,865,637
<b>EXPENDITURES</b>				
Education	6,732,476	242,803	-	6,975,279
Debt service:				
Principal retirement	18,939	-	-	18,939
Total expenditures	6,751,415	242,803	-	6,994,218
Excess (deficiency) of revenues over expenditures	(83,061)	(45,520)	-	(128,581)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	87,767	-	-	87,767
Total other financing sources	87,767	-	-	87,767
Net change in fund balances	4,706	(45,520)	-	(40,814)
<b>FUND BALANCES (DEFICITS), JULY 1</b>	189,749	28,180	(283,796)	(65,867)
<b>FUND BALANCES (DEFICITS), JUNE 30</b>	<u>\$ 194,455</u>	<u>\$ (17,340)</u>	<u>\$ (283,796)</u>	<u>\$ (106,681)</u>

**Net change in fund balances** \$ (40,814)

**Reconciliation of amounts reported for governmental activities in the Statement of Activities:**

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	\$ 194,999	
Depreciation expense	(138,238)	
		56,761

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,152)
--	--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds from capital lease	\$ (87,767)	
Repayment of principal	18,939	
		(68,828)

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	\$ 18,586	
Change in compensated absences	15,893	
Changed in net OPEB obligation	542,800	
		577,279

<b>Change in net position of governmental activities</b>		<u><u>\$ 523,246</u></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, 2013**

	<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	\$ 56,262	\$ 56,263	\$ 31,175	\$ (25,088)
Miscellaneous	70,000	70,000	52,918	(17,082)
Payments from primary government	1,757,850	1,882,953	1,883,599	646
Intergovernmental	4,965,765	5,123,792	4,700,662	(423,130)
Total revenues	6,849,877	7,133,008	6,668,354	(464,654)
<b>EXPENDITURES</b>				
Education	6,849,877	7,170,905	6,732,476	438,429
Debt service:				
Principal retirement	-	-	18,939	(18,939)
Total expenditures	6,849,877	7,170,905	6,751,415	419,490
Excess (deficiency) of revenues over expenditures	-	(37,897)	(83,061)	(45,164)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from capital lease	-	-	87,767	87,767
Total other financing sources	-	-	87,767	87,767
Net change in fund balance	\$ -	\$ (37,897)	\$ 4,706	\$ 42,603

## COMPLIANCE SECTION

---

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of Town Council 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 4, 2013.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as items 12-01 and 12-02 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 or other matters that are required to be reported under Government Auditing Standards and identified in the Schedule of Findings and Questioned Costs as Items 13-02 through 13-05.**

## 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 response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 4, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

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 compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

***Opinion on Each Major Federal Program***

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 13-01. Our opinion on each major federal program is not modified with respect to this matter.

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

### **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 4, 2013

## TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013

<b>Federal Granting Agency/Recipient State Agency</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures in Clusters</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Commonwealth of Virginia Department of Agriculture and Consumer Services			
Chile Nutrition Cluster			
National School Lunch Program	10.555	\$ 147,960	
National School Lunch Program - Commodities	10.555	12,983	
Summer Food Service Program for Children	10.559	2,961	
Summer Food Service Program for Children - Commodities	10.559	94	163,998
Total U.S. Department of Agriculture			163,998
<b>U.S. Department of Justice</b>			
Pass-through payments:			
Department of Criminal Justice Services			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.738		3,319
Total U.S. Department of Justice			3,319
<b>U.S. Department of Education</b>			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Title I - Grants to Local Educational Agencies	84.010		389,662
Special Education - Grants to States	84.027		85,867
Vocational Education - Basic Grants to States	84.048		2,169
Safe and Drug Free Schools	84.186		667
Rural Education	84.358		15,378
Improving Teacher Quality State Grants	84.367		30,021
Education Technology State Grants	84.318		404
Recovery Act - School Improvement 1003G	84.388		490,745
Recovery Act - Education Jobs Fund	84.410		38,313
Total U.S. Department of Education			1,053,226
Total Expenditures of Federal Awards			\$ 1,220,543

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2013**

**I. Basis of Presentation**

The accompanying schedule of expenditures of federal awards 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 Circular A-133, *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 \$12,983 from the National School Lunch Program.



**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SUMMARY OF STATE AND LOCAL COMPLIANCE MATTERS**  
**June 30, 2013**

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  
Comprehensive Services Act  
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 programs selected for testing.

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2013**

**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, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion** on all major federal programs.
6. The audit disclosed **one audit finding relating to the major program**.
7. The major programs of the Town are:

<u>Name of Program</u>	<u>CFDA #</u>
ARRA – School Improvement Grant	84.388
Title I	84.010

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
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, 2013**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**12-01: Segregation of Duties (Material Weakness) (Town and Schools)**

*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 will look at each function to minimize risk.

**12-02: Auditor Adjustments (Material Weakness) (Town and Schools)**

*Condition:*

We noted errors which required adjustments to current and prior period financial statements, indicating a material weakness in controls over financial reporting.

*Recommendation:*

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

*Management's Response:*

Following current auditing methodology and requirements will eliminate this condition.

There has been significant improvements to our financial reporting process over the years; however, we will 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, 2013**

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

**13-01: Student Improvement Grant Reports (Schools)**

*Condition:*

Priority School Leading Indicators Annual Report, Priority School Lagging Indicators Annual Report, and Data System Approval Form were all due on February 15, 2013. Reports were not submitted until February 19, 2013.

*Recommendation:*

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

*Management's Response:*

Future report deadlines will be more strictly adhered to.

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

**13-02: Commonwealth of Virginia Disclosure Statements (Town and Schools)**

*Condition:*

Two Town officials and one School official did not file statements of economic interest as required by the *Code of Virginia*. Additionally, two Town officials and two School officials did not file statements by the deadline.

*Recommendation:*

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

*Management's Response:*

Management recommends that all statements are filed and turned in no later than the date of the monthly Town Council Meeting each January. Steps will be implemented to ensure that all statements are filed timely and properly maintained.

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2013**

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

**13-03: Unclaimed Property**

*Condition:*

We noted twenty nine outstanding checks totaling \$10,544.45 for the Schools that are greater than a year old and have not been reported to the Commonwealth as unclaimed property.

*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.

*Management's Response:*

A system has been put in place to periodically review and void checks that have been reissued/outstanding. This process will eliminate this condition.

**13-04: 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, one that did not have labor costs recorded, and one where the wrong equipment rate was used.

*Recommendation:*

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

*Management Response:*

The staff person responsible for entries from July 1 to February 1 no longer has responsibility for this function. Management concurs with the auditors' recommendation.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013**

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

**13-05: Budget Compliance (Town and Schools)**

*Condition:*

The Town spent \$61,536 and \$800 more on public safety and health and welfare, respectively than budgeted. The School Board spent \$18,939 more on principal retirement than budgeted. It is a violation of the *Code of Virginia* to expend funds in excess of appropriations.

*Recommendation:*

We recommend that the Town and School Board review budget to actual reports on a monthly basis and amend the budgets when necessary.

*Management's Response:*

Certain funds had to be expended and reimbursement sought later. In the future, management will request budget adjustments on a more current basis to align with expenditures.