

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**FINANCIAL REPORT**  
**JUNE 30, 2014**

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

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# INTRODUCTORY SECTION

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

**TOWN COUNCIL**

Mike Ham, Mayor  
Linda Brubaker  
Wanda Goforth  
Gary Seeber  
L. “Tommy” Edwards  
George “Pete” Bone, Jr.  
Jim Chiarello

**OTHER OFFICIALS**

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

**SCHOOL BOARD**

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

## FINANCIAL SECTION

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the Town, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 24, 2014, 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 24, 2014

# **BASIC FINANCIAL STATEMENTS**

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## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION  
June 30, 2014

	Primary Government			Discretely Presented
	Governmental Activities	Business-Type Activities	Totals	Component Unit School Board
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 2,587,632	\$ 339,596	\$ 2,927,228	\$ 689,512
Receivables, net (Note 3)	263,616	244,559	508,175	3,702
Due from other governments (Note 3)	86,796	84,806	171,602	274,138
Due from component unit (Note 4)	352,460	-	352,460	-
Prepays	-	-	-	102,786
Restricted cash and cash equivalents (Note 2)	-	89,843	89,843	-
Capital assets: (Note 5)				
Nondepreciable	1,395,942	84,699	1,480,641	172,208
Depreciable, net	8,281,467	18,769,097	27,050,564	1,532,954
Total assets	12,967,913	19,612,600	32,580,513	2,775,300
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	261,279	345,619	606,898	788,451
Accrued interest payable	18,623	41,478	60,101	-
Due to primary government (Note 4)	-	-	-	352,460
Noncurrent liabilities: (Note 7)				
Due within one year	231,754	336,562	568,316	43,177
Due in more than one year	971,329	7,529,179	8,500,508	123,887
Total liabilities	1,482,985	8,252,838	9,735,823	1,307,975
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenues (Note 6)	90,412	-	90,412	-
Total deferred inflows of resources	90,412	-	90,412	-
<b>NET POSITION</b>				
Net investment in capital assets	8,566,087	11,016,404	19,582,491	1,652,554
Restricted per debt agreement	-	89,843	89,843	-
Unrestricted	2,828,429	253,515	3,081,944	(185,229)
Total net position	\$ 11,394,516	\$ 11,359,762	\$ 22,754,278	\$ 1,467,325

## TOWN OF COLONIAL BEACH, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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		
<b>Primary Government:</b>								
Governmental activities:								
General government	\$ 871,914	\$ 12,395	\$ -	\$ -	\$ (859,519)		\$ (859,519)	\$ -
Public safety	1,276,358	25,447	91,847	-	(1,159,064)		(1,159,064)	-
Public works	1,963,154	61,842	632,065	291,864	(977,383)		(977,383)	-
Health and welfare	4,800	-	-	-	(4,800)		(4,800)	-
Parks, recreation, and cultural	207	-	-	-	(207)		(207)	-
Community development	307,097	143,942	33,999	-	(129,156)		(129,156)	-
Education	2,120,286	-	-	-	(2,120,286)		(2,120,286)	-
Interest on long-term debt	40,835	-	-	-	(40,835)		(40,835)	-
Total governmental activities	6,584,651	243,626	757,911	291,864	(5,291,250)		(5,291,250)	-
Business-type activities:								
Water	588,259	856,539	-	-		\$ 268,280	268,280	-
Sewer	1,885,498	1,718,663	-	312,382		145,547	145,547	-
Total business-type activities	2,473,757	2,575,202	-	312,382		413,827	413,827	-
Total primary government	\$ 9,058,408	\$ 2,818,828	\$ 757,911	\$ 604,246	(5,291,250)	413,827	(4,877,423)	-
<b>Discretely Presented Component Unit:</b>								
School Board	\$ 6,809,898	\$ 109,750	\$ 4,255,330	\$ -				(2,444,818)
General revenues:								
Taxes:								
General property taxes					3,425,127	-	3,425,127	-
Other local taxes:								
Local sales and use					180,457	-	180,457	-
Food and lodging					427,090	-	427,090	-
Consumer utility and communications sales and use					297,705	-	297,705	-
Other					342,294	-	342,294	-
Contributions from Town					-	-	-	2,120,286
Intergovernmental, non-categorical aid					240,316	-	240,316	-
Gain on sale of town property					27,400	-	27,400	-
Use of money and property					33,417	-	33,417	-
Other					2,408	-	2,408	53,737
Special item: Insurance proceeds (Note 10)					-	-	-	100,000
Total general revenues and transfers					4,976,214	-	4,976,214	2,274,023
Change in net position					(315,036)	413,827	98,791	(170,795)
<b>NET POSITION AT JULY 1</b>					11,709,552	10,945,935	22,655,487	1,638,120
<b>NET POSITION AT JUNE 30</b>					\$ 11,394,516	\$ 11,359,762	\$ 22,754,278	\$ 1,467,325

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

## TOWN OF COLONIAL BEACH, VIRGINIA

BALANCE SHEET -  
GOVERNMENTAL FUNDS

June 30, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,233,780	\$ 218,784	\$ 135,068	\$ 2,587,632
Receivables, net (Note 3)	263,616	-	-	263,616
Due from other governments (Note 3)	86,796	-	-	86,796
Due from component unit (Note 4)	352,460	-	-	352,460
Total assets	<u>\$ 2,936,652</u>	<u>\$ 218,784</u>	<u>\$ 135,068</u>	<u>\$ 3,290,504</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 261,279	\$ -	\$ -	\$ 261,279
Total liabilities	<u>261,279</u>	<u>-</u>	<u>-</u>	<u>261,279</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable/unearned revenue (Note 6)	312,079	-	-	312,079
Total deferred inflows of resources	<u>312,079</u>	<u>-</u>	<u>-</u>	<u>312,079</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term amounts due from component unit	352,460	-	-	352,460
Committed to:				
Capital projects	130,000	-	-	130,000
Assigned for:				
Capital projects	-	218,784	-	218,784
Erosion funds	-	-	135,068	135,068
Unassigned	1,880,834	-	-	1,880,834
Total fund balances	<u>2,363,294</u>	<u>218,784</u>	<u>135,068</u>	<u>2,717,146</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,936,652</u>	<u>\$ 218,784</u>	<u>\$ 135,068</u>	<u>\$ 3,290,504</u>

## TOWN OF COLONIAL BEACH, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2014**

**Total Fund Balance - Governmental Funds** \$ 2,717,146

**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	\$	1,395,942	
Depreciable, net		8,281,467	
			9,677,409

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

221,667

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	\$	(1,111,322)	
Compensated absences		(91,761)	
Accrued interest payable		(18,623)	
			(1,221,706)

**Total Net Position - Governmental Activities** \$ 11,394,516

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
General property taxes	\$ 3,360,720	\$ -	\$ -	\$ 3,360,720
Other local taxes	1,247,546	-	-	1,247,546
Permits, privilege fees, and regulatory licenses	171,508	-	-	171,508
Charges for services	58,982	-	-	58,982
Use of money and property	33,417	-	-	33,417
Miscellaneous	15,544	-	-	15,544
Intergovernmental	998,227	-	-	998,227
Total revenues	5,885,944	-	-	5,885,944
<b>EXPENDITURES</b>				
Current:				
General government	867,800	-	-	867,800
Public safety	1,288,585	-	-	1,288,585
Public works	1,453,050	-	-	1,453,050
Health and welfare	4,800	-	-	4,800
Community development	304,439	-	-	304,439
Education	2,120,286	-	-	2,120,286
Debt service:				
Principal retirement (Note 7)	147,245	-	-	147,245
Interest and fiscal charges	42,883	-	-	42,883
Total expenditures	6,229,088	-	-	6,229,088
Excess of expenditures over revenues	(343,144)	-	-	(343,144)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	27,400	-	27,400
Transfers in (Note 4)	46,164	-	-	46,164
Transfers out (Note 4)	-	(46,164)	-	(46,164)
Total other financing sources (uses)	46,164	(18,764)	-	27,400
Net change in fund balance	(296,980)	(18,764)	-	(315,744)
<b>FUND BALANCES AT JULY 1</b>	2,660,274	237,548	135,068	3,032,890
<b>FUND BALANCES AT JUNE 30</b>	\$ 2,363,294	\$ 218,784	\$ 135,068	\$ 2,717,146

## 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, 2014**

**Net Change in Fund Balance - Governmental Funds** \$ (315,744)

**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	\$	141,717	
Depreciation expense		(654,390)	
			(512,673)

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.

291,864

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

64,407

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.

147,245

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

Change in accrued interest	\$	2,048	
Change in compensated absences		7,817	
			9,865

**Change in Net Position - Governmental Activities** \$ (315,036)



## TOWN OF COLONIAL BEACH, VIRGINIA

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

	<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)	\$ 323,408	\$ 16,188	\$ 339,596
Receivables, net	80,438	164,121	244,559
Total current assets	403,846	180,309	584,155
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	-	89,843	89,843
Due from other fund (Note 4)	-	54,992	54,992
Intergovernmental receivable (Notes 4 and 15)	-	84,806	84,806
Capital Assets: (Note 5)			
Nondepreciable	57,892	26,807	84,699
Depreciable, net	2,588,752	16,180,345	18,769,097
Total noncurrent assets	2,646,644	16,436,793	19,083,437
Total assets	3,050,490	16,617,102	19,667,592
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other current liabilities	37,897	307,722	345,619
Accrued interest payable	24,407	17,071	41,478
Due to other fund (Note 4)	54,992	-	54,992
Compensated absences (Note 7)	6,949	21,400	28,349
Current portion of long-term liabilities (Note 7)	140,394	167,819	308,213
Total current liabilities	264,639	514,012	778,651
Noncurrent liabilities:			
Long-term debt (Note 7)	1,411,933	6,117,246	7,529,179
Total noncurrent liabilities	1,411,933	6,117,246	7,529,179
Total liabilities	1,676,572	6,631,258	8,307,830
<b>NET POSITION</b>			
Net investment in capital assets	1,094,317	9,922,087	11,016,404
Restricted per debt agreement	-	89,843	89,843
Unrestricted	279,601	(26,086)	253,515
Total net position	\$ 1,373,918	\$ 9,985,844	\$ 11,359,762

## TOWN OF COLONIAL BEACH, VIRGINIA

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

Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 748,879	\$ 1,549,913	\$ 2,298,792
Connection fees	107,660	168,750	276,410
Total operating revenues	856,539	1,718,663	2,575,202
<b>OPERATING EXPENSES</b>			
Personnel	257,621	667,790	925,411
Operating	171,893	653,576	825,469
Depreciation	91,324	470,788	562,112
Total operating expenses	520,838	1,792,154	2,312,992
Operating income (loss)	335,701	(73,491)	262,210
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest expense	(67,421)	(93,344)	(160,765)
Income (loss) before contributions	268,280	(166,835)	101,445
<b>CAPITAL CONTRIBUTIONS</b>			
Change in net position	268,280	145,547	413,827
<b>NET POSITION JULY 1</b>	1,105,638	9,840,297	10,945,935
<b>NET POSITION JUNE 30</b>	\$ 1,373,918	\$ 9,985,844	\$ 11,359,762

## TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS  
Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 877,069	\$ 1,749,901	\$ 2,626,970
Payments to suppliers	(154,835)	(1,268,546)	(1,423,381)
Payments to employees	(255,130)	(665,059)	(920,189)
Net cash provided by (used in) operating activities	467,104	(183,704)	283,400
<b>NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Interfund borrowing	54,992	(54,992)	-
Net cash provided by (used in) noncapital financing activities	54,992	(54,992)	-
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(54,993)	(2,224,278)	(2,279,271)
Proceeds from bond issuances	-	2,340,812	2,340,812
Principal paid on long-term debt	(133,038)	(506,970)	(640,008)
Interest paid on long-term debt	(72,443)	(80,388)	(152,831)
Proceeds from other governments	-	19,977	19,977
Capital grants	-	312,382	312,382
Net cash used in capital and related financing activities	(260,474)	(138,465)	(398,939)
Net increase (decrease) in cash and cash equivalents	261,622	(377,161)	(115,539)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	61,786	483,192	544,978
Ending at June 30	\$ 323,408	\$ 106,031	\$ 429,439
<b>RECONCILIATION TO EXHIBIT 7</b>			
Cash and investments	\$ 323,408	\$ 16,188	\$ 339,596
Restricted cash	-	89,843	89,843
Total	\$ 323,408	\$ 106,031	\$ 429,439
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 335,701	\$ (73,491)	\$ 262,210
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	91,324	470,788	562,112
Change in assets and liabilities:			
Increase in:			
Receivables, net	20,530	31,238	51,768
Increase (decrease) in:			
Accounts payable and other current liabilities	17,058	(614,970)	(597,912)
Compensated absences	2,491	2,731	5,222
Net cash provided by (used in) operating activities	\$ 467,104	\$ (183,704)	\$ 283,400
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>			
Capital asset purchases included in accounts payable at year end	\$ -	\$ 209,795	\$ 209,795
Capitalized interest	\$ -	\$ 23,175	\$ 23,175

## TOWN OF COLONIAL BEACH, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### 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, 2014**

**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, 2014**

**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, 2014**

**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 \$12,634 in the general fund.

At June 30, total expenditures related to public safety exceeded budgeted amounts by \$63,519.

**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, 2014**

**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 Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one such item, *unavailable revenue*. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year-end and property taxes collected in advance but levied to fund future years. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Unearned revenue consists of property taxes collected that are not yet due.

**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.



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**K. Compensated Absences (Continued)**

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

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

**L. 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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**M. Net Position/Fund Balance (Continued)**

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.

**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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Investments**

**Investment Policy:**

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

Pursuant to Sec. 2.1-234.7 of the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

**Credit Risk:**

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

**Concentration of Credit Risk:**

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Investments (Continued)**

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

	<b><u>Primary Government</u></b>	<b><u>Component Unit – School Board</u></b>
Demand deposits	\$ 2,469,075	\$ 689,512
Certificates of deposit	<u>547,996</u>	<u>-</u>
Total deposits and investments	<u><u>\$ 3,017,071</u></u>	<u><u>\$ 689,512</u></u>
Reconciliation to Statement of Net Position – Exhibit 1:		
Cash and cash equivalents	\$ 2,927,228	\$ 689,512
Cash and cash equivalents, restricted	<u>89,843</u>	<u>-</u>
Total deposits and investments	<u><u>\$ 3,017,071</u></u>	<u><u>\$ 689,512</u></u>

**Interest Rate Risk:**

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

**Custodial Credit Risk:**

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, 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.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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	\$ 315,359	\$ -	\$ 315,359	\$ -
Other	-	350,641	350,641	3,702
Gross receivables	315,359	350,641	666,000	3,702
Less: allowance for uncollectibles	(51,743)	(106,082)	(157,825)	-
Receivables, net	<u>\$ 263,616</u>	<u>\$ 244,559</u>	<u>\$ 508,175</u>	<u>\$ 3,702</u>
Due from other governments:				
Communications tax	\$ 34,424	\$ -	\$ 34,424	\$ -
Sales tax	34,878	-	34,878	103,924
Grant reimbursement	12,299	-	12,299	164,725
Medicaid	-	-	-	2,447
Other state funds	16	-	16	3,042
County	5,179	84,806	89,985	-
Total due from other governments	<u>\$ 86,796</u>	<u>\$ 84,806</u>	<u>\$ 171,602</u>	<u>\$ 274,138</u>

The County owes the sewer fund \$98,464 for its required contribution to the 2008 sewer plant upgrade. This amount is offset by \$13,658 that the Town owes the County for overpayments on usage fees.

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

The Component Unit School Board has an obligation of \$329,964 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 \$22,496 for overdrawn cash.

The composition of interfund transfers is as follows:

<b>Transfer Out Fund</b>	<b>Transfer In Fund</b>	<b>Amount</b>
Capital Improvement	General	\$ 46,164

The transfer from the capital improvement fund to the general fund was to assist with the purchase of certain items.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 5. Capital Assets**

**Primary Government**

Capital asset activity for the year is as follows:

<b><u>Governmental Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital asset, not depreciated:				
Land	\$ 1,395,942	\$ -	\$ -	\$ 1,395,942
Construction in progress	16,953	141,717	158,670	-
Total capital assets not depreciated	1,412,895	141,717	158,670	1,395,942
Capital assets, depreciated:				
Buildings and improvements	798,870	-	-	798,870
Infrastructure	8,260,160	450,534	-	8,710,694
Equipment	590,220	-	-	590,220
Vehicles	906,552	-	-	906,552
Total capital assets	10,555,802	450,534	-	11,006,336
Less accumulated depreciation for:				
Buildings and improvements	(277,353)	(16,683)	-	(294,036)
Infrastructure	(550,678)	(568,198)	-	(1,118,876)
Equipment	(466,855)	(32,269)	-	(499,124)
Vehicles	(775,593)	(37,240)	-	(812,833)
Total accumulated depreciation	(2,070,479)	(654,390)	-	(2,724,869)
Total capital assets, depreciated, net	8,485,323	(203,856)	-	8,281,467
Governmental activities capital assets, net	<u>\$ 9,898,218</u>	<u>\$ (62,139)</u>	<u>\$ 158,670</u>	<u>\$ 9,677,409</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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	1,768,188	2,410,237	4,123,006	55,419
Total capital assets not depreciated	1,797,468	2,410,237	4,123,006	84,699
Capital assets, depreciated:				
Utility plant	23,497,121	4,150,010	-	27,647,131
Equipment	259,364	73,664	-	333,028
Vehicles	390,320	29,353	-	419,673
Total capital assets depreciated	24,146,805	4,253,027	-	28,399,832
Less accumulated depreciation for:				
Buildings and improvements	(8,700,910)	(521,950)	-	(9,222,860)
Equipment	(187,525)	(13,619)	-	(201,144)
Vehicles	(180,188)	(26,543)	-	(206,731)
Total accumulated depreciation	(9,068,623)	(562,112)	-	(9,630,735)
Total capital assets depreciated, net	15,078,182	3,690,915	-	18,769,097
Business-type activities capital assets, net	<u>\$ 16,875,650</u>	<u>\$ 6,101,152</u>	<u>\$ 4,123,006</u>	<u>\$ 18,853,796</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,567
Public safety	1,740
Public works	650,876
Parks, recreation, and cultural	207
	<u>\$ 654,390</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Primary Government (Continued)**

Business-type activities:

Water	\$ 91,324
Sewer	<u>470,788</u>
	<u>\$ 562,112</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	<u>682,328</u>	<u>7,556</u>	<u>38,652</u>	<u>651,232</u>
Total capital assets, depreciated	<u>3,324,476</u>	<u>7,556</u>	<u>38,652</u>	<u>3,293,380</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,294,314)	(79,004)	-	(1,373,318)
Equipment	(3,616)	(3,616)	-	(7,232)
Vehicles	<u>(363,874)</u>	<u>(54,654)</u>	<u>38,652</u>	<u>(379,876)</u>
Total accumulated depreciation	<u>(1,661,804)</u>	<u>(137,274)</u>	<u>38,652</u>	<u>(1,760,426)</u>
Total capital assets, depreciated, net	<u>1,662,672</u>	<u>(129,718)</u>	<u>-</u>	<u>1,532,954</u>
School board capital assets, net	<u>\$ 1,834,880</u>	<u>\$ (129,718)</u>	<u>\$ -</u>	<u>\$ 1,705,162</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, 2014**

**Note 6. Unavailable/Unearned Revenue**

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 185,745	\$ -	\$ 185,745
Sales and communications taxes	35,922	-	35,922
Property taxes paid in advance	<u>-</u>	<u>90,412</u>	<u>90,412</u>
Totals	<u>\$ 221,667</u>	<u>\$ 90,412</u>	<u>\$ 312,079</u>

Unavailable revenue for the School Board consists of sales tax revenue of \$43,716.

**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	\$ 1,258,567	\$ -	\$ 147,245	\$ 1,111,322	\$ 151,202
Compensated absences	<u>99,578</u>	<u>79,598</u>	<u>87,415</u>	<u>91,761</u>	<u>80,552</u>
Governmental activities long-term liabilities	<u>\$ 1,358,145</u>	<u>\$ 79,598</u>	<u>\$ 234,660</u>	<u>\$ 1,203,083</u>	<u>\$ 231,754</u>
<b>Business-type Activities:</b>					
General obligation bonds	\$ 4,834,507	\$ 2,340,812	\$ 576,358	\$ 6,598,961	\$ 237,863
Revenue bonds	1,302,081	-	63,650	1,238,431	70,350
Compensated absences	<u>23,127</u>	<u>39,195</u>	<u>33,973</u>	<u>28,349</u>	<u>28,349</u>
Business-type activities long-term liabilities	<u>\$ 6,159,715</u>	<u>\$ 2,380,007</u>	<u>\$ 673,981</u>	<u>\$ 7,865,741</u>	<u>\$ 336,562</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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>
2015	\$ 151,202	\$ 37,581	\$ 308,213	\$ 181,289	\$ 459,415	\$ 218,870
2016	159,820	32,009	362,366	150,603	522,186	182,612
2017	156,628	26,338	363,714	165,451	520,342	191,789
2018	57,304	22,489	311,191	157,998	368,495	180,487
2019	41,250	20,623	315,445	151,354	356,695	171,977
2020-2024	178,200	79,955	1,573,344	656,446	1,751,544	736,401
2025-2029	125,400	46,787	1,485,033	492,661	1,610,433	539,448
2030-2034	108,900	23,781	879,846	354,070	988,746	377,851
2035-2039	132,618	2,339	693,004	207,903	825,622	210,242
2040-2044	-	-	485,107	135,489	485,107	135,489
2045-2049	-	-	522,005	84,728	522,005	84,728
2050-2054	-	-	452,605	31,290	452,605	31,290
2055-2059	-	-	85,519	4,138	85,519	4,138
	<u>\$ 1,111,322</u>	<u>\$ 291,902</u>	<u>\$ 7,837,392</u>	<u>\$ 2,773,420</u>	<u>\$ 8,948,714</u>	<u>\$ 3,065,322</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	\$ 379,753	\$ 199,798
General Obligation Public Improvement and Revenue Bond	4.67% - 14.86%	2005	2035	2,686,000	731,569	1,238,431
RUS Sewer Loan	4.50%	1999	2039	1,161,000	-	921,060
General Obligation Public Improvement Bonds	0.0%	2008	2029	2,672,000	-	1,790,525
General Obligation Public Improvement Bonds	2.50%	2010	2050	1,088,000	-	999,382
USDA Rural Development Note Payable	4.25%	2011	2026	265,428	-	228,196
General Obligation Sewer Bonds	1.875%	2013	2053	2,460,000	-	2,460,000
					<u>\$ 1,111,322</u>	<u>\$ 7,837,392</u>

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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	\$ 68,828	\$ -	\$ 16,220	\$ 52,608	\$ 16,861
Compensated absences	115,716	-	9,372	106,344	23,612
Other post-employment benefits	10,497	-	2,385	8,112	2,704
Governmental Activities long-term liabilities	<u>\$ 195,041</u>	<u>\$ -</u>	<u>\$ 27,977</u>	<u>\$ 167,064</u>	<u>\$ 43,177</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>
2015	\$ 16,861	\$ 2,078
2016	17,527	1,412
2017	18,220	719
	<u>\$ 52,608</u>	<u>\$ 4,209</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, 2014

#### Note 8. Defined Benefit Pension Plan

##### Plan Description

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

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

##### **VRS PLAN 1**

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

**Hybrid Opt-In Election** – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

**Retirement Contributions** – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**VRS PLAN 1 (Continued)**

**Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

**Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

**Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

**Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

**Normal Retirement Age** – Age 65.

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

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

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**VRS PLAN 1 (Continued)**

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

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

**Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**VRS PLAN 2**

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

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

**Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

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

**Normal Retirement Age** – Normal Social Security retirement age.

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

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

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

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

**HYBRID RETIREMENT PLAN**

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

**About the Hybrid Retirement Plan** – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

**Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.\*
- School division employees.
- Political subdivision employees.\*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

**\*Non-Eligible Members**

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.



**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

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

**Creditable Service**

**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

**Vesting**

**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

**Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

**Vesting (Continued)**

Distribution is not required by law until age 70½.

**Calculating the Benefit**

**Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

**Average Final Compensation** – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

**Service Retirement Multiplier** – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

**Normal Retirement Age**

**Defined Benefit Component:** Same as VRS Plan 2.

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

**Earliest Unreduced Retirement Eligibility**

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

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

**Earliest Reduced Retirement Eligibility**

**Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan Description (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

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

**Defined Benefit Component:** Same as VRS Plan 2.

**Defined Contribution Component:** Not applicable.

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

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

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 10.55% of the annual covered payroll.

The School Board professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the fiscal years ending June 30, 2014, 2013, and 2012 were \$458,637, \$354,172, and \$356,871, respectively, and were equal to the required contributions for each year.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Annual Pension Cost**

For the fiscal year ended June 30, 2014, the Town annual pension cost of \$208,574 for VRS was equal to the required and actual contributions.

**Three-Year Trend Information  
Town**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2014	\$ 208,574	100%	\$ -
June 30, 2013	\$ 311,194	100%	\$ -
June 30, 2012	\$ 224,746	100%	\$ -

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

The actuarial value of the Town 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. Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

**Funded Status and Funding Progress**

For the Town employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 75.05% funded. The actuarial accrued liability for benefits was \$6,186,591, and the actuarial value of assets was \$4,642,939, resulting in a net underfunding – on actuarial accrued asset of \$1,543,652. The covered payroll (annual payroll of active employees covered by the plan) was \$1,886,109, and the ratio of the UAAL to the covered payroll was 81.84%.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Funded Status and Funding Progress (Continued)**

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

**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.

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.

During fiscal year 2014, there was a fire at the old high school building that was no longer in use by the Schools, but which they still owned. A second building that was in use was also damaged by the fire. Both buildings were fully depreciated at the time of the fire and therefore, there was no loss. The Schools received \$100,000 from the insurance company during the fiscal year and are negotiating a settlement agreement for approximately \$1,800,000.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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 School approved awarding a construction contract to relocate the damaged elementary school for \$621,000. The project will be financed with debt or insurance proceeds.

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. The Town has continued to make improvements to the wastewater treatment plant, including completing Phase 3 in fiscal year 2014. There is a water project currently in process.

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

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

**Note 14. Subsequent Events**

In September 2014, the Town issued \$1,946,000 General Obligation Bonds to finance various capital improvement projects at the Town and Schools. The interest rate on the Series 2014 Bond is fixed for twenty years at 3.094%.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 15. New Accounting Standards**

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

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

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

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

# **REQUIRED SUPPLEMENTARY INFORMATION**

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## TOWN OF COLONIAL BEACH, VIRGINIA

## SCHEDULES OF FUNDING PROGRESS

Year Ended June 30, 2014

TOWN - VIRGINIA RETIREMENT SYSTEM

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
		Actuarial	Unfunded			UAAL as a
Actuarial	Actuarial	Accrued	Actuarial	Funded	Covered	Percentage of
Valuation Date	Value of Assets	Liability (AAL)	Liability (UAAL)	Ratio	Payroll	Covered Payroll
June 30, 2013	\$ 4,642,939	\$ 6,186,591	\$ 1,543,652	75.05%	\$ 1,886,109	81.84%
June 30, 2012	\$ 4,364,950	\$ 4,592,777	\$ 227,827	95.04%	\$ 1,685,594	13.52%
June 30, 2011	\$ 4,271,902	\$ 4,374,336	\$ 102,434	97.66%	\$ 1,727,986	5.93%
June 30, 2010	\$ 4,092,348	\$ 3,998,454	\$ (93,894)	102.35%	\$ 1,615,284	-5.81%
June 30, 2009	\$ 3,936,379	\$ 3,443,554	\$ (492,825)	114.31%	\$ 1,583,076	-31.13%
June 30, 2008	\$ 3,738,308	\$ 3,184,235	\$ (554,073)	117.40%	\$ 1,696,728	-32.66%

## TOWN OF COLONIAL BEACH, VIRGINIA

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

**Year Ended June 30, 2014**

	<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	\$ 2,827,692	\$ 2,769,692	2,629,008	\$ (140,684)
Personal property	479,629	495,629	483,620	(12,009)
Delinquent	100,100	168,100	176,195	8,095
Penalties and interest	50,000	62,000	71,897	9,897
Total general property taxes	<u>3,457,421</u>	<u>3,495,421</u>	<u>3,360,720</u>	<u>(134,701)</u>
Other local taxes:				
Communication sales and use	230,000	230,000	203,959	(26,041)
Food and lodging	425,000	425,000	427,090	2,090
Bank stock	40,000	40,000	40,560	560
Business license taxes	136,300	136,300	138,069	1,769
Local sales and use taxes	171,000	171,000	180,457	9,457
Consumer utility taxes	108,000	108,000	93,746	(14,254)
Motor vehicle license	90,000	90,000	80,026	(9,974)
Cigarette tax	108,000	108,000	83,639	(24,361)
Total other local taxes	<u>1,308,300</u>	<u>1,308,300</u>	<u>1,247,546</u>	<u>(60,754)</u>
Permits, fees, and licenses	<u>112,000</u>	<u>161,088</u>	<u>171,508</u>	<u>10,420</u>
Charges for services	<u>38,500</u>	<u>46,568</u>	<u>58,982</u>	<u>12,414</u>
Use of money and property:				
Interest	10,535	10,535	9,398	(1,137)
Rental of property	16,510	16,510	24,019	7,509
Total use of money and property	<u>27,045</u>	<u>27,045</u>	<u>33,417</u>	<u>6,372</u>
Miscellaneous	<u>10,935</u>	<u>13,435</u>	<u>15,544</u>	<u>2,109</u>
Intergovernmental	<u>1,411,174</u>	<u>1,430,548</u>	<u>998,227</u>	<u>(432,321)</u>
Total revenue	<u>6,365,375</u>	<u>6,482,405</u>	<u>5,885,944</u>	<u>(596,461)</u>
<b>EXPENDITURES</b>				
General government	963,742	974,793	867,800	106,993
Public safety	1,209,486	1,225,066	1,288,585	(63,519)
Public works	1,320,283	1,545,181	1,453,050	92,131
Health and welfare	4,800	4,800	4,800	-
Parks, recreation, and cultural	5,000	5,000	-	5,000
Community development	713,146	713,404	304,439	408,965
Education	2,103,198	2,120,286	2,120,286	-
Debt service:				
Principal retirement	147,245	147,245	147,245	-
Interest and fiscal charges	43,491	43,491	42,883	608
Total debt service	<u>190,736</u>	<u>190,736</u>	<u>190,128</u>	<u>608</u>
Total expenditures	<u>6,510,391</u>	<u>6,779,266</u>	<u>6,229,088</u>	<u>550,178</u>
Excess of expenditures over revenues	<u>(145,016)</u>	<u>(296,861)</u>	<u>(343,144)</u>	<u>(46,283)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	150,000	289,211	46,164	(243,047)
Total other financing sources	<u>150,000</u>	<u>289,211</u>	<u>46,164</u>	<u>(243,047)</u>
Net change in fund balance	<u>\$ 4,984</u>	<u>\$ (7,650)</u>	<u>\$ (296,980)</u>	<u>\$ (289,330)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

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

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

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

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

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**  
**COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>School Capital Projects</u>	<u>Total Governmental</u>
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 655,504	\$ -	\$ 34,008	\$ 689,512
Accounts receivable (Note 3)	-	3,702	-	3,702
Due from other governments (Note 3)	274,138	-	-	274,138
Total assets	<u>\$ 929,642</u>	<u>\$ 3,702</u>	<u>\$ 34,008</u>	<u>\$ 967,352</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 775,193	\$ 13,258	\$ -	\$ 788,451
Due to primary government (Note 4)	12,160	22,496	317,804	352,460
Total liabilities	<u>787,353</u>	<u>35,754</u>	<u>317,804</u>	<u>1,140,911</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue (Note 6)	43,716	-	-	43,716
Total deferred inflows of resources	<u>43,716</u>	<u>-</u>	<u>-</u>	<u>43,716</u>
<b>FUND BALANCES (DEFICITS)</b>				
Assigned	98,573	-	-	98,573
Unassigned	-	(32,052)	(283,796)	(315,848)
Total fund balances (deficits)	<u>98,573</u>	<u>(32,052)</u>	<u>(283,796)</u>	<u>(217,275)</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 929,642</u>	<u>\$ 3,702</u>	<u>\$ 34,008</u>	<u>\$ 967,352</u>

**Total fund balances (deficits)** **\$ (217,275)**

**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>1,532,954</u>	1,705,162

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

43,716

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

102,786

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	\$ (52,608)	
Compensated absences	(106,344)	
Net OPEB obligation	<u>(8,112)</u>	<u>(167,064)</u>

**Net position of governmental activities** **\$ 1,467,325**

**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, 2014**

	School Operating	School Cafeteria	School Capital Projects	Total Governmental
<b>REVENUES</b>				
Charges for services	\$ 40,669	\$ 69,081	\$ -	\$ 109,750
Miscellaneous	53,737	-	-	53,737
Payments from primary government	2,120,286	-	-	2,120,286
Intergovernmental	4,077,917	171,274	-	4,249,191
Total revenue	6,292,609	240,355	-	6,532,964
<b>EXPENDITURES</b>				
Education	6,469,552	255,067	-	6,724,619
Debt service:				
Principal retirement	16,220	-	-	16,220
Interest and fiscal charges	2,719	-	-	2,719
Total expenditures	6,488,491	255,067	-	6,743,558
Excess (deficiency) of revenues over expenditures	(195,882)	(14,712)	-	(210,594)
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	100,000	-	-	100,000
Total other financing sources	100,000	-	-	100,000
Net change in fund balances	(95,882)	(14,712)	-	(110,594)
<b>FUND BALANCES (DEFICITS), JULY 1</b>	194,455	(17,340)	(283,796)	(106,681)
<b>FUND BALANCES (DEFICITS), JUNE 30</b>	\$ 98,573	\$ (32,052)	\$ (283,796)	\$ (217,275)
<b>Net change in fund balances</b>				\$ (110,594)
<b>Reconciliation of amounts reported for governmental activities in the Statement of Activities:</b>				
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Capital outlays			\$ 7,556	
Depreciation expense			(137,274)	
				(129,718)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.				6,139
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, there is no effect on net position.				16,220
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			\$ 35,401	
Change in compensated absences			9,372	
Changed in net OPEB obligation			2,385	
				47,158
<b>Change in net position of governmental activities</b>				<b>\$ (170,795)</b>

## 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, 2014**

	<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	\$ 40,000	\$ 40,000	\$ 40,669	\$ 669
Miscellaneous	25,000	25,000	53,737	28,737
Payments from primary government	2,103,198	2,103,198	2,120,286	17,088
Intergovernmental	4,336,203	4,313,493	4,077,917	(235,576)
Total revenues	6,504,401	6,481,691	6,292,609	(189,082)
<b>EXPENDITURES</b>				
Education	6,464,401	6,543,691	6,469,552	74,139
Debt service:				
Principal retirement	38,000	38,000	16,220	21,780
Interest and fiscal charges	-	-	2,719	(2,719)
Total expenditures	6,502,401	6,581,691	6,488,491	93,200
Excess (deficiency) of revenues over expenditures	2,000	(100,000)	(195,882)	(95,882)
<b>OTHER FINANCING SOURCES</b>				
Insurance recoveries	-	100,000	100,000	-
Total other financing sources	-	100,000	100,000	-
Net change in fund balance	\$ 2,000	\$ -	\$ (95,882)	\$ (95,882)

## COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component 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, 2014, 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 24, 2014.

**Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. **We consider the deficiencies described in the accompanying schedule of findings and question costs as items 12-01 and 12-02 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 which are identified in the schedule of findings and questioned costs as Items 14-01 through 14-04.**

## Town of Colonial Beach's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 24, 2014

**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, 2014. 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, 2014.

## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*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. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-06 to be a material weakness.**

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

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 24, 2014

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2014**

<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			
Child Nutrition Cluster			
National School Lunch Program	10.555	\$ 161,768	
National School Lunch Program - Commodities	10.555	12,779	
Summer Food Service Program for Children	10.559	3,397	
Summer Food Service Program for Children - Commodities	10.559	751	178,695
Water and Waste Program Cluster			
Water and Waste Disposal Systems for Rural Communities	10.760		2,653,194
Total U.S. Department of Agriculture			2,831,890
<b>U.S. Department of Justice</b>			
Pass-through payments:			
Department of Criminal Justice Services			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738		2,877
Total U.S. Department of Justice			2,877
<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		271,237
Special Education - Grants to States	84.027		101,965
Career and Technical Education - Basic Grants to States	84.048		17,986
Rural Education	84.358		5,937
Improving Teacher Quality State Grants	84.367		35,860
Recovery Act - School Improvement Grants, Recovery Act	84.388		161,344
Total U.S. Department of Education			594,329
Total Expenditures of Federal Awards			\$ 3,429,096

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2014**

**I. Basis of Presentation**

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

The information presented in this Schedule is presented in accordance with OMB 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 \$13,530 from the National School Lunch Program.

**III. Loan Program**

Included in the Schedule of Expenditures of Federal Awards are loan proceeds obtained through United States Department of Agriculture. Total disbursements under the project were \$2,653,194, \$2,340,812 represent federal loan proceeds. The remaining amount of \$312,382 is federal grant funds. The loan is through the Water and Waste Disposal Systems for Rural Communities Program, CFDA number 10.760.

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SUMMARY OF STATE AND LOCAL COMPLIANCE MATTERS**  
**June 30, 2014**

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

**STATE COMPLIANCE MATTERS**

*Code of Virginia*

Budget and Appropriation Laws  
Cash and Investment Laws  
Conflicts of Interest Act  
Local Retirement Systems  
Debt Provisions  
Procurement Laws  
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, 2014**

**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. **One material weakness** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by *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 programs.
7. The major programs of the Town are:

<u>Name of Program</u>	<u>CFDA #</u>
Water and Waste Disposal Systems for Rural Communities	10.760
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, 2014**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

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

*Condition:*

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

*Recommendation:*

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

*Management's Response:*

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

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

*Condition:*

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

*Recommendation:*

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

*Management's Response:*

Following current auditing methodology and requirements will eliminate this condition.

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

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

**13-06: Completeness of Schedule of Federal Awards (Material Weakness) (Town)**

*Condition:*

A major federal award was not included in the Schedule of Expenditures of Federal Awards.

*Recommendation:*

Steps should be taken to ensure that all federal funds are documented and properly reported.

*Management's Response:*

The Schedule of Expenditures of Federal Awards will be closely reviewed for completeness.

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

**14-01: Commonwealth of Virginia Disclosure Statements (Schools)**

*Condition:*

One School official out of five tested did not file a statement of economic interest by the deadline as required by the *Code of Virginia*.

*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.

**14-02: Highway Maintenance – Work Orders (Town)**

*Condition:*

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

**TOWN OF COLONIAL BEACH, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2014**

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

**14-02: Highway Maintenance – Work Orders (Town) (Continued)**

*Management Response:*

Management will add notes to work orders stating the reason for a change in labor or equipment rates. We will also scan and attach invoices to work orders when possible.

**14-03: Unclaimed Property (Schools)**

*Condition:*

We noted thirty three outstanding checks totaling \$10,710.75 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:*

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

**14-04: Budget Compliance (Town)**

*Condition:*

The Town spent \$63,519 more on public safety than budgeted. It is a violation of the *Code of Virginia* to expend funds in excess of appropriations.

*Recommendation:*

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

*Management's Response:*

Management will request budget adjustments on a more current basis to align with expenditures.

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2014**

**A. 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.

*Current Status:*

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