# TOWN OF COLONIAL BEACH, VIRGINIA

## FINANCIAL REPORT

## JUNE 30, 2017

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

## TABLE OF CONTENTS

Page(s)

## INTRODUCTORY SECTION



## FINANCIAL SECTION

Page(s)

## REQUIRED SUPPLEMENTARY INFORMATION



## OTHER SUPPLEMENTARY INFORMATION



**Discretely Presented Component Unit- School Board:**



## COMPLIANCE SECTION

# INTRODUCTORY SECTION

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

## TOWN COUNCIL

Edward Blunt, Mayor
Dallas Leamon
Frank Alger, III
Stephen Cirbee
Phil Rogers
William Dellar
Burkett Lyburn

## OTHER OFFICIALS

Kathleen Flanagan, Town Clerk
Andrea G. Erard, Town Attorney
Danny Plott, Chief of Police
Robert Murphy, Director of Public Works
Dr. Kevin Newman, Superintendent of Schools

## SCHOOL BOARD

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

# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2017, 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.



124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Town, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

*Other Information (Continued)*

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2017

# BASIC FINANCIAL STATEMENTS

EXHIBIT 1

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2017

| | Primary Government | | | Discretely Presented Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | School Board |
| **ASSETS** | | | | |
| Cash and cash equivalents (Note 2) | $ 2,585,929 | $ 654,767 | $ 3,240,696 | $ 188,472 |
| Receivables, net (Note 3) | 264,131 | 269,656 | 533,787 | 9,560 |
| Due from other governments (Note 3) | 548,240 | 144,811 | 693,051 | 243,037 |
| Due from component unit (Note 4) | 339,850 | - | 339,850 | - |
| Due from other funds (Note 4) | 40,580 | (40,580) | - | - |
| Prepaids | - | - | - | 118,860 |
| Restricted cash and cash equivalents (Note 2) | 3,509 | 673,794 | 677,303 | 1,769,457 |
| Net pension asset (Note 8) | 371,020 | 124,921 | 495,941 | - |
| Capital assets: (Note 5) | | | | |
| Nondepreciable | 2,596,785 | 224,692 | 2,821,477 | 8,705,319 |
| Depreciable, net | 7,158,894 | 17,759,333 | 24,918,227 | 2,841,208 |
| Total assets | 13,908,938 | 19,811,394 | 33,720,332 | 13,875,913 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Pension related deferred outlfows (Notes 8 and 9) | 187,419 | 63,103 | 250,522 | 1,036,615 |
| **LIABILITIES** | | | | |
| Accounts payable and other current liabilities | 394,763 | 169,133 | 563,896 | 1,718,637 |
| Accrued interest payable | 171,451 | 44,314 | 215,765 | - |
| Due to primary government (Note 4) | - | - | - | 339,850 |
| Noncurrent liabilties: | | | | |
| Net pension liability (Note 9) | - | - | - | 6,280,000 |
| Due within one year (Note 7) | 303,733 | 418,652 | 722,385 | 200,278 |
| Due in more than one year (Note 7) | 10,811,381 | 7,551,958 | 18,363,339 | 48,454 |
| Total liabilities | 11,681,328 | 8,184,057 | 19,865,385 | 8,587,219 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unearned revenues (Note 6) | 116,667 | - | 116,667 | - |
| Deferred inflows related to pensions (Notes 8 and 9) | 217,675 | 73,290 | 290,965 | 269,000 |
| Total deferred inflows of resources | 334,342 | 73,290 | 407,632 | 269,000 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 7,704,840 | 10,647,586 | 18,352,426 | 12,214,288 |
| Restricted for: | | | | |
| Debt service | 33,074 | 673,794 | 706,868 | - |
| Unrestricted | (5,657,227) | 295,770 | (5,361,457) | (6,157,979) |
| Total net position | $ 2,080,687 | $ 11,617,150 | $ 13,697,837 | $ 6,056,309 |

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

EXHIBIT 2

**TOWN OF COLONIAL BEACH, VIRGINIA**

**STATEMENT OF ACTIVITIES**
**Year Ended June 30, 2017**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position — Primary Government | | | |
|---|---|---|---|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-Type Activities** | **Totals** | **Discretely Presented Component Unit School Board** |
| **Primary Government:** | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | $ 751,287 | $ 861 | $ - | $ - | $ (750,426) | | $ (750,426) | $ - |
| Public safety | 1,199,215 | 23,138 | 109,852 | 48,146 | (1,018,079) | | (1,018,079) | - |
| Public works | 1,716,971 | 110,514 | 707,767 | - | (898,690) | | (898,690) | - |
| Health and welfare | 4,800 | - | - | - | (4,800) | | (4,800) | - |
| Parks, recreation, and cultural | 5,000 | - | - | - | (5,000) | | (5,000) | - |
| Community development | 381,452 | 90,681 | - | 530,268 | 239,497 | | 239,497 | - |
| Education | 2,299,916 | - | - | - | (2,299,916) | | (2,299,916) | - |
| Interest | 370,654 | - | - | - | (370,654) | | (370,654) | - |
| Total governmental activities | 6,729,295 | 225,194 | 817,619 | 578,414 | (5,108,068) | | (5,108,068) | - |
| Business-type activities: | | | | | | | | |
| Water | 564,454 | 825,458 | - | - | | $ 261,004 | 261,004 | - |
| Sewer | 2,010,646 | 1,916,506 | - | 5,000 | | (89,140) | (89,140) | |
| Total business-type activities | 2,575,100 | 2,741,964 | - | 5,000 | | 171,864 | 171,864 | - |
| Total primary government | $ 9,304,395 | $ 2,967,158 | $ 817,619 | $ 583,414 | (5,108,068) | 171,864 | (4,936,204) | - |
| **Discretely Presented Component Unit:** | | | | | | | | |
| School Board | $ 7,244,970 | $ 104,911 | $ 4,672,122 | $ - | | | | (2,467,937) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| General property taxes | | | | | 3,855,136 | - | 3,855,136 | - |
| Other local taxes: | | | | | | | | |
| Local sales and use | | | | | 212,709 | - | 212,709 | - |
| Food and lodging | | | | | 516,444 | - | 516,444 | - |
| Consumer utility and communications sales and use | | | | | 294,393 | - | 294,393 | - |
| Other | | | | | 419,746 | - | 419,746 | - |
| Contributions from Town | | | | | - | - | - | 2,299,916 |
| Intergovernmental, non-categorical aid | | | | | 240,317 | - | 240,317 | - |
| Use of money and property | | | | | 39,628 | - | 39,628 | 33,302 |
| Other | | | | | 19,087 | - | 19,087 | 16,210 |
| Total general revenues and transfers | | | | | 5,597,460 | - | 5,597,460 | 2,349,428 |
| Change in net position | | | | | 489,392 | 171,864 | 661,256 | (118,509) |
| **NET POSITION AT JULY 1** | | | | | 1,591,295 | 11,445,286 | 13,036,581 | 6,174,818 |
| **NET POSITION AT JUNE 30** | | | | | $ 2,080,687 | $ 11,617,150 | $ 13,697,837 | $ 6,056,309 |

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

EXHIBIT 3

TOWN OF COLONIAL BEACH, VIRIGNIA

BALANCE SHEET -
GOVERNMENTAL FUNDS
June 30, 2017

| | General | Capital Projects | Erosion Fund | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 1,910,638 | $ 540,223 | $ 135,068 | $ 2,585,929 |
| Receivables, net | 264,131 | - | - | 264,131 |
| Due from other governments | 548,240 | - | - | 548,240 |
| Due from component unit | 339,850 | - | - | 339,850 |
| Due from other funds | 40,580 | - | - | 40,580 |
| Restricted cash and cash equivalents | 3,509 | - | - | 3,509 |
| Total assets | $ 3,106,948 | $ 540,223 | $ 135,068 | $ 3,782,239 |
| **LIABILITIES** | | | | |
| Accounts payable and other current liabilities | $ 394,763 | $ - | $ - | $ 394,763 |
| Total liabilities | 394,763 | - | - | 394,763 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable/unearned revenue (Note 6) | 331,937 | - | - | 331,937 |
| Total deferred inflows of resources | 331,937 | - | - | 331,937 |
| **FUND BALANCES** | | | | |
| Nonspendable: | | | | |
| Long-term amounts due from component unit | 339,850 | - | - | 339,850 |
| Restricted for: | | | | |
| Debt service | 33,074 | - | - | 33,074 |
| Committed for: | | | | |
| Fire department | - | 1,211 | - | 1,211 |
| Rescue squad | - | 1,211 | - | 1,211 |
| Schools | - | 2,422 | - | 2,422 |
| School capital projects | 3,509 | - | - | 3,509 |
| Assigned for: | | | | |
| Capital projects | 300,000 | 535,379 | - | 835,379 |
| Erosion funds | - | - | 135,068 | 135,068 |
| Unassigned | 1,703,815 | - | - | 1,703,815 |
| Total fund balances | 2,380,248 | 540,223 | 135,068 | 3,055,539 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 3,106,948 | $ 540,223 | $ 135,068 | $ 3,782,239 |

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

**TOWN OF COLONIAL BEACH, VIRIGNIA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**
**TO THE STATEMENT OF NET POSITION**
**June 30, 2017**

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds** | | $ 3,055,539 |
| **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 | $ 2,596,785 | |
| Depreciable, net | 7,158,894 | |
| | | 9,755,679 |
| Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds | | 215,270 |
| Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources for 2017 employer contributions | 65,707 | |
| Deferred outflows of resources for the net differences between projected and actual earnings on plan investments | 121,712 | |
| Net pension asset | 371,020 | |
| Deferred inflows of resources for the differences between expected and actual experience | (217,675) | |
| | | 340,764 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| General obligation bonds | $ (10,998,870) | |
| Compensated absences | (116,244) | |
| Accrued interest payable | (171,451) | |
| | | (11,286,565) |
| **Total Net Position - Governmental Activities** | | $ 2,080,687 |

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

EXHIBIT 5

**TOWN OF COLONIAL BEACH, VIRGINIA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
**Year Ended June 30, 2017**

| | General | Capital Projects | Erosion Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| General property taxes | $ 3,830,802 | $ - | $ - | $ 3,830,802 |
| Other local taxes | 1,443,292 | - | - | 1,443,292 |
| Permits, privilege fees, and regulatory licenses | 117,300 | - | - | 117,300 |
| Charges for services | 107,894 | - | - | 107,894 |
| Use of money and property | 39,628 | - | - | 39,628 |
| Miscellaneous | 19,087 | - | - | 19,087 |
| Intergovernmental | 1,636,349 | - | - | 1,636,349 |
| Total revenues | 7,194,352 | - | - | 7,194,352 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 926,856 | - | - | 926,856 |
| Public safety | 1,338,118 | - | - | 1,338,118 |
| Public works | 1,621,398 | - | - | 1,621,398 |
| Health and welfare | 4,800 | - | - | 4,800 |
| Parks, recreation, and cultural | 5,000 | - | - | 5,000 |
| Community development | 940,870 | - | - | 940,870 |
| Education | 2,299,916 | - | - | 2,299,916 |
| Debt service: | | | | |
| Principal retirement (Note 7) | 244,158 | - | - | 244,158 |
| Interest and fiscal charges | 449,298 | - | - | 449,298 |
| Total expenditures | 7,830,414 | - | - | 7,830,414 |
| Excess of expenditures over revenues | (636,062) | - | - | (636,062) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Capital lease proceeds | 10,605 | - | - | 10,605 |
| Transfers in (Note 4) | 150,000 | - | - | 150,000 |
| Transfers out (Note 4) | - | (150,000) | - | (150,000) |
| Total other financing sources (uses) | 160,605 | (150,000) | - | 10,605 |
| Net change in fund balance | (475,457) | (150,000) | - | (625,457) |
| **FUND BALANCES AT JULY 1** | 2,855,705 | 690,223 | 135,068 | 3,680,996 |
| **FUND BALANCES AT JUNE 30** | $ 2,380,248 | $ 540,223 | $ 135,068 | $ 3,055,539 |

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

EXHIBIT 6

**TOWN OF COLONIAL BEACH, VIRIGNIA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**
**Year Ended June 30, 2017**

| | | | | |
|---|---|---|---|---|
| **Net Change in Fund Balance - Governmental Funds** | | | $ | (625,457) |
| **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 | $ | 960,235 | | |
| Depreciation expense | | (711,238) | | 248,997 |
| Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. | | | | |
| Employer pension contributions | | 187,419 | | |
| Pension income | | 355,877 | | 543,296 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | | | 13,729 |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | | | | |
| Debt principal repayment | | 244,158 | | |
| Changes in bond premiums | | 11,101 | | 255,259 |
| 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 | $ | 67,087 | | |
| Change in compensated absences | | (13,519) | | 53,568 |
| **Change in Net Position - Governmental Activities** | | | $ | 489,392 |

EXHIBIT 7

**TOWN OF COLONIAL BEACH, VIRGINIA**

**STATEMENT OF NET POSITION -**
**PROPRIETARY FUNDS**
**June 30, 2017**

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---|---|
| | **Water** | **Sewer** | **Total** |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 654,767 | $ - | $ 654,767 |
| Receivables, net | 75,711 | 193,945 | 269,656 |
| Total current assets | 730,478 | 193,945 | 924,423 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | 571,000 | 102,794 | 673,794 |
| Intergovernmental receivable | - | 144,811 | 144,811 |
| Net pension asset | 36,558 | 88,363 | 124,921 |
| Capital assets: | | | |
| Nondepreciable | 198,312 | 26,380 | 224,692 |
| Depreciable, net | 2,561,873 | 15,197,460 | 17,759,333 |
| Total noncurrent assets | 3,367,743 | 15,559,808 | 18,927,551 |
| Total assets | 4,098,221 | 15,753,753 | 19,851,974 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Pension contributions made subsequent to the measurement date (Note 8) | 18,467 | 44,636 | 63,103 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable and other current liabilities | 15,278 | 153,855 | 169,133 |
| Accrued interest payable | 21,914 | 22,400 | 44,314 |
| Due to other fund (Note 4) | - | 40,580 | 40,580 |
| Compensated absences (Note 7) | 7,879 | 24,453 | 32,332 |
| Current portion of long-term liabilities (Note 7) | 112,522 | 273,798 | 386,320 |
| Total current liabilities | 157,593 | 515,086 | 672,679 |
| Noncurrent liabilities: | | | |
| Compensated absences (Note 7) | - | 11,838 | 11,838 |
| Long-term liabilities (Note 7) | 1,628,382 | 5,911,738 | 7,540,120 |
| Total noncurrent liabilities | 1,628,382 | 5,923,576 | 7,551,958 |
| Total liabilities | 1,785,975 | 6,438,662 | 8,224,637 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows related to pensions (Note 8) | 21,448 | 51,842 | 73,290 |
| **NET POSITION** | | | |
| Net investment in capital assets | 1,590,281 | 9,057,305 | 10,647,586 |
| Restricted per debt agreement | 571,000 | 102,794 | 673,794 |
| Unrestricted | 147,984 | 147,786 | 295,770 |
| Total net position | $ 2,309,265 | $ 9,307,885 | $ 11,617,150 |

EXHIBIT 8

## TOWN OF COLONIAL BEACH, VIRGINIA

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
### Year Ended June 30, 2017

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **OPERATING REVENUES** | | | |
| Charges for services | $ 768,178 | $ 1,855,781 | $ 2,623,959 |
| Connection fees | 57,280 | 60,725 | 118,005 |
| Total operating revenues | 825,458 | 1,916,506 | 2,741,964 |
| **OPERATING EXPENSES** | | | |
| Personnel | 210,372 | 490,331 | 700,703 |
| Operating | 209,599 | 757,466 | 967,065 |
| Depreciation | 99,894 | 626,369 | 726,263 |
| Total operating expenses | 519,865 | 1,874,166 | 2,394,031 |
| Operating income | 305,593 | 42,340 | 347,933 |
| **NONOPERATING EXPENSES** | | | |
| Interest expense | (44,589) | (117,480) | (162,069) |
| Debt issuance costs | - | (19,000) | (19,000) |
| Income (loss) before contributions and transfers | 261,004 | (94,140) | 166,864 |
| **CAPITAL CONTRIBUTIONS** | - | 5,000 | 5,000 |
| **TRANSFERS (Note 4)** | 281,000 | (281,000) | - |
| Change in net position | 542,004 | (370,140) | 171,864 |
| **NET POSITION AT JULY 1** | 1,767,261 | 9,678,025 | 11,445,286 |
| **NET POSITION JUNE 30** | $ 2,309,265 | $ 9,307,885 | $ 11,617,150 |

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2017**

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **OPERATING ACTIVITIES** | | | |
| Receipts from customers | $ 850,019 | $ 1,965,589 | $ 2,815,608 |
| Payments to suppliers | (221,588) | (739,857) | (961,445) |
| Payments to employees | (268,121) | (617,524) | (885,645) |
| Net cash provided by operating activities | 360,310 | 608,208 | 968,518 |
| **NONCAPITAL AND RELATED FINANCING ACTIVITIES** | | | |
| Interfund borrowing or transfer | 281,000 | (240,420) | 40,580 |
| Net cash provided by (used in) noncapital financing activities | 281,000 | (240,420) | 40,580 |
| **CAPITAL AND RELATED FINANCING ACTIVITIES** | | | |
| Purchases of capital assets | (62,012) | (491,054) | (553,066) |
| Proceeds from issuance of debt | 147,991 | 885,324 | 1,033,315 |
| Principal paid on long-term liabilities | (170,867) | (1,114,058) | (1,284,925) |
| Interest paid on long-term debt | (48,564) | (112,827) | (161,391) |
| Debt issuance costs | - | (19,000) | (19,000) |
| Capital contributions | - | (33,396) | (33,396) |
| Net cash used by capital and related financing activities | (133,452) | (885,011) | (1,018,463) |
| Net increase (decrease) in cash and cash equivalents | 507,858 | (517,223) | (9,365) |
| **CASH AND CASH EQUIVALENTS** | | | |
| Beginning at July 1 | 717,909 | 620,017 | 1,337,926 |
| Ending at June 30 | $ 1,225,767 | $ 102,794 | $ 1,328,561 |
| **RECONCILIATION TO EXHIBIT 7** | | | |
| Cash and cash equivalents | $ 654,767 | $ - | $ 654,767 |
| Restricted cash and cash equivalents | 571,000 | 102,794 | 673,794 |
| Total | $ 1,225,767 | $ 102,794 | $ 1,328,561 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | |
| Operating income | $ 305,593 | $ 42,340 | $ 347,933 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 99,894 | 626,369 | 726,263 |
| Pension expense net of employer contributions | (56,811) | (130,172) | (186,983) |
| Change in assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables, net | 24,561 | 49,083 | 73,644 |
| Increase (decrease) in: | | | |
| Accounts payable and other current liabilities | (11,989) | 17,609 | 5,620 |
| Compensated absences | (938) | 2,979 | 2,041 |
| Net cash provided by operating activities | $ 360,310 | $ 608,208 | $ 968,518 |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:** | | | |
| Capitalized interest | $ 5,827 | $ - | $ 5,827 |

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

## Note 1. Summary of Significant Accounting Policies

### A. The Financial Reporting Entity

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

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

*Discretely Presented Component Unit:*

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

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

*Government-Wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. Likewise, *the primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Prepaid expenses are accounted for using the purchases method. Under this method, prepaid expenses are reported as expenditures when paid.

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

The Town reports the following major governmental funds:

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

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

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

### D. Budgets and Budgetary Accounting

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

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

At June 30, total expenditures related to principal retirement and interest and fiscal charges for the School Board exceeded budgeted amounts by $20,983.

### 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.

**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:

| | Years |
|---|---|
| Buildings and utility plant | 5-50 |
| Infrastructure | 30 |
| Improvements other than buildings | 20 |
| Vehicles and equipment | 5-20 |

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

### J. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has two items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second is the net difference between projected and actual earnings on plan investments. This difference will be recognized in pension expense over the closed five year period.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has four of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second deferred inflow results from participation in the Virginia Retirement System's teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate. The third item represents differences between expected and actual experience in the pension plan. This difference will be recognized in pension expense over a closed five year period. Finally, the fourth item represents unearned revenue related to the prepayment of taxes not due until 2017.

### K. Compensated Absences

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

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

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

### L. Pension

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

(Continued)

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

### M. Long-term Obligations

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

### N. Net Position/Fund Balance

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

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

- **Nonspendable -** Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned -** Amounts the Town intends to use for a specified purpose; intent can be expressed by Town Council or by the Town Manager who has been granted this authority.
- **Unassigned** –Amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

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

**O. Restricted Amounts**

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

**P. Minimum Fund Balance Policy**

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

**Q. Encumbrances**

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

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

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

**Note 2. Deposits and Investments**

**Deposits**

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

## 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.

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

**Investments (Continued)**

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

| | Primary Government | Component Unit – School Board |
|---|---|---|
| Demand deposits | $ 3,086,571 | $ 188,472 |
| Certificates of deposit | 831,428 | - |
| SNAP | - | 1,769,457 |
| Total deposits and investments | $ 3,917,999 | $ 1,957,929 |
| Reconciliation to Statement of Net Position – Exhibit 1: | | |
| Cash and cash equivalents | $ 3,240,696 | $ 188,472 |
| Cash and cash equivalents, restricted | 677,303 | 1,769,457 |
| Total deposits and investments | $ 3,917,999 | $ 1,957,929 |

Interest Rate Risk:

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

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the Town's investments are held in a bank's trust department in the Town's name. The School Board's investments consisted of SNAP funds totaling $1,769,457 which have an S&P credit rating of AAAm.

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for debt retirement as required by a debt agreement and unspent proceeds from the master equipment lease entered into during 2015. Restricted cash also consists of unspent bond proceeds from Virginia Resources Authority in the water fund entered into during 2017. Restricted cash and cash equivalents for the School Board consist of unspent proceeds from school capital project bonds issued during fiscal year 2016. These funds are held in SNAP investments.

## Note 3. Receivables and Due from Other Governments

The following amounts represent receivables at June 30:

| | Governmental Type Activities | Business-Type Activities | Total | Component Unit-School Board |
|---|---|---|---|---|
| Accounts receivable: | | | | |
| Taxes | $ 346,673 | $ - | $ 346,673 | $ - |
| Other | - | 424,263 | 424,263 | 9,560 |
| Gross receivables | 346,673 | 424,263 | 770,936 | 9,560 |
| Less: allowance for uncollectibles | (82,542) | (154,607) | (237,149) | - |
| Receivables, net | $ 264,131 | $ 269,656 | $ 533,787 | $ 9,560 |
| Due from other governments: | | | | |
| Communications tax | $ 31,512 | $ - | $ 31,512 | $ - |
| Sales tax | 42,459 | - | 42,459 | 111,166 |
| Grant reimbursement | 470,571 | - | 470,571 | 53,683 |
| Medicaid | - | - | - | 20,600 |
| Other state funds | 998 | - | 998 | 10,507 |
| Other | - | - | - | - |
| County | 2,700 | 144,811 | 147,511 | - |
| Total due from other governments | $ 548,240 | $ 144,811 | $ 693,051 | $ 243,037 |

The County owes the sewer fund $144,811 for its required contribution to the 2008 sewer plant upgrade.

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

The Component Unit School Board has an obligation of $339,850 to the general fund resulting from deficits in prior years. Currently the School Board and Town are discussing plans to liquidate this obligation. As a result, it is reflected as nonspendable fund balance in the general fund.

The sewer fund owes the general fund for overspent cash of $40,580.

The composition of interfund transfers is as follows:

| Transfer Out Fund | Transfer In Fund | Amount |
|---|---|---|
| Capital Improvement | General | $ 150,000 |
| Sewer | Water | $ 281,000 |

The transfers from the capital improvement fund to the general fund were to assist with improvements for the downtown revitalization and public bathroom projects. The transfer from the sewer fund to the water fund was to establish a reserve fund as required by a debt agreement.

## Note 5. Capital Assets

**Primary Government**

Capital asset activity for the year is as follows:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital asset, not depreciated: | | | | |
| Land | $ 1,460,330 | $ - | $ - | $ 1,460,330 |
| Construction in progress | 605,030 | 804,778 | (273,353) | 1,136,455 |
| Total capital assets, not depreciated | 2,065,360 | 804,778 | (273,353) | 2,596,785 |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 806,320 | 278,639 | - | 1,084,959 |
| Infrastructure | 8,710,694 | - | - | 8,710,694 |
| Equipment | 760,094 | 127,690 | - | 887,784 |
| Vehicles | 858,821 | 22,481 | (18,225) | 863,077 |
| Total capital assets | 11,135,929 | 428,810 | (18,225) | 11,546,514 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (323,077) | (18,951) | - | (342,028) |
| Infrastructure | (2,280,302) | (580,713) | - | (2,861,015) |
| Equipment | (573,283) | (44,380) | - | (617,663) |
| Vehicles | (517,945) | (67,194) | 18,225 | (566,914) |
| Total accumulated depreciation | (3,694,607) | (711,238) | 18,225 | (4,387,620) |
| Total capital assets, depreciated, net | 7,441,322 | (282,427) | - | 7,158,894 |
| Governmental activities capital assets, net | $ 9,506,681 | $ 522,350 | $ (273,353) | $ 9,755,679 |

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

**Primary Government (Continued)**

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital asset, not depreciated: | | | | |
| Land | $ 29,280 | $ - | $ - | $ 29,280 |
| Construction in progress | 150,425 | 44,987 | - | 195,412 |
| Total capital assets, not depreciated | 179,705 | 44,987 | - | 224,692 |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 27,954,351 | 114,810 | - | 28,069,161 |
| Equipment | 379,783 | 320,069 | - | 699,852 |
| Vehicles | 627,973 | 56,175 | - | 684,148 |
| Total capital assets depreciated | 28,962,107 | 491,054 | - | 29,453,161 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (10,433,389) | (624,057) | - | (11,057,446) |
| Equipment | (237,137) | (44,196) | - | (281,333) |
| Vehicles | (297,039) | (58,010) | - | (355,049) |
| Total accumulated depreciation | (10,967,565) | (726,263) | - | (11,693,828) |
| Total capital assets depreciated, net | 17,994,542 | (235,209) | - | 17,759,333 |
| Business-type activities capital assets, net | $ 18,174,247 | $ (190,222) | $ - | $ 17,984,025 |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 25,320 |
| Public safety | 30,448 |
| Public works | 654,170 |
| Community development | 1,300 |
| | $ 711,238 |

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

**Primary Government (Continued)**

| | |
|---|---|
| Business-type activities: | |
| Water | $ 99,894 |
| Sewer | 626,369 |
| | $ 726,263 |

**Component Unit – School Board**

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital asset, not depreciated: | | | | |
| Land | $ 57,210 | $ - | $ - | $ 57,210 |
| Construction in progress | 682,770 | 7,965,339 | - | 8,648,109 |
| Total capital assets not depreciated | 739,980 | 7,965,339 | - | 8,705,319 |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 4,165,763 | - | - | 4,165,763 |
| Equipment | 91,236 | 20,000 | - | 111,236 |
| Vehicles | 772,771 | 104,550 | - | 877,321 |
| Total capital assets, depreciated | 5,029,770 | 124,550 | - | 5,154,320 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (1,584,528) | (144,715) | | (1,729,243) |
| Equipment | (17,632) | (14,333) | - | (31,965) |
| Vehicles | (478,629) | (73,275) | - | (551,904) |
| Total accumulated depreciation | (2,080,789) | (232,323) | - | (2,313,112) |
| Total capital assets, depreciated, net | 2,948,981 | (107,773) | - | 2,841,208 |
| School board capital assets, net | $ 3,688,961 | $ 7,857,566 | $ - | $ 11,546,527 |

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

## 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:

| | Unavailable | Unearned | Total |
|---|---|---|---|
| Property taxes | $ 175,608 | $ - | $ 175,608 |
| Sales and communications taxes | 39,662 | - | 39,662 |
| Property taxes paid in advance | - | 116,667 | 116,667 |
| Totals | $ 215,270 | $ 116,667 | $ 331,937 |

Unavailable revenue for the School Board consists of sales tax revenue of $79,794.

## Note 7. Long-Term Debt

### Primary Government

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

| | Beginning Balance | Increases | Decreases | Ending Balance | Due within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| General obligation bonds | $ 10,656,323 | $ - | $ 215,480 | $ 10,440,843 | $ 165,765 |
| Bond premium | 325,622 | - | 11,101 | 314,521 | 11,101 |
| Capital lease | 261,579 | 10,605 | 28,678 | 243,506 | 30,429 |
| Compensated absences | 102,725 | 98,741 | 85,222 | 116,244 | 96,438 |
| Governmental activities long-term liabilities | $ 11,346,249 | $ 109,346 | $ 340,481 | $ 11,115,114 | $ 303,733 |
| **Business-type Activities:** | | | | | |
| General obligation bonds | $ 7,809,929 | $ 1,033,315 | $ 1,245,148 | $ 7,598,096 | $ 345,256 |
| Capital lease | 368,121 | - | 39,777 | 328,344 | 41,064 |
| Compensated absences | 42,129 | 39,085 | 37,044 | 44,170 | 32,332 |
| Business-type activities long-term liabilities | $ 8,220,179 | $ 1,072,400 | $ 1,321,969 | $ 7,970,610 | $ 418,653 |

(Continued)

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

### Primary Government (Continued)

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

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| **Fiscal Year** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2018 | $ 196,194 | $ 377,671 | $ 386,320 | $ 150,113 | $ 582,514 | $ 527,784 |
| 2019 | 302,638 | 368,203 | 480,535 | 194,450 | 783,173 | 562,653 |
| 2020 | 315,401 | 355,612 | 455,428 | 217,455 | 770,829 | 573,067 |
| 2021 | 320,665 | 345,366 | 398,111 | 128,721 | 718,776 | 474,087 |
| 2022 | 316,737 | 334,965 | 384,593 | 121,661 | 701,330 | 456,626 |
| 2023-2027 | 1,697,304 | 1,463,990 | 1,839,150 | 503,937 | 3,536,454 | 1,967,927 |
| 2028-2032 | 1,840,410 | 1,137,423 | 1,226,995 | 367,202 | 3,067,405 | 1,504,625 |
| 2033-2037 | 1,965,000 | 822,479 | 972,803 | 240,009 | 2,937,803 | 1,062,488 |
| 2038-2042 | 1,915,000 | 505,346 | 523,185 | 156,042 | 2,438,185 | 661,388 |
| 2043-2047 | 1,815,000 | 136,166 | 503,845 | 106,170 | 2,318,845 | 242,336 |
| 2048-2052 | - | - | 542,138 | 53,584 | 542,138 | 53,584 |
| 2053-2057 | - | - | 204,173 | 10,475 | 204,173 | 10,476 |
| 2058-2062 | - | - | 9,164 | 162 | 9,164 | 162 |
| | $ 10,684,349 | $ 5,847,221 | $ 7,926,440 | $ 2,249,981 | $ 18,610,789 | $ 8,097,203 |

Details of Long-term Indebtedness

| | Interest Rates | Date Issued | Maturity Date | Amount of Original Issue | Governmental Activities | Business-Type Activities |
|---|---|---|---|---|---|---|
| General Obligation Public Improvement and Refunding Bond | 3.46% | 2004 | 2017 | $ 1,815,000 | $ 19,355 | $ 5,737 |
| General Obligation Public Improvement Bonds | 0.0 | 2008 | 2029 | 2,672,000 | - | 1,432,420 |
| General Obligation Public Improvement Bonds | 2.50 | 2010 | 2050 | 1,088,000 | - | 941,007 |
| USDA Rural Development Note Payable | 4.25 | 2011 | 2026 | 265,428 | - | 182,560 |
| General Obligation Sewer Bonds | 1.875 | 2013 | 2053 | 2,460,000 | - | 2,368,544 |
| General Obligation Public Improvement Bonds | 3.094 | 2014 | 2035 | 1,946,000 | 1,190,238 | 610,762 |
| General Obligation Public Improvement and Refunding Bond | 2.65 | 2015 | 2035 | 1,775,000 | 601,250 | 1,023,750 |
| Master Equipment Lease | 2.31 | 2015 | 2024 | 718,000 | 233,356 | 328,344 |
| Virginia Public School Authority Bonds | 3.52 | 2015 | 2046 | 8,630,000 | 8,630,000 | - |
| General Obligation Bond- Carter Bank | 2.65 | 2017 | 2037 | 885,324 | - | 885,324 |
| Virginia Resource Authority Revolving Fund | 2.35 | 2017 | 2038 | 4,374,004 | - | 147,992 |
| Pitney Bowes Capital Lease | 6.25 | 2017 | 2022 | 10,605 | 10,150 | - |
| | | | | | $ 10,684,349 | $ 7,926,440 |

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

**Primary Government (Continued)**

**VPSA Bond**

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

**School Board**

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

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance | Due within One Year |
|---|---|---|---|---|---|
| Capital leases | $ 78,028 | $ - | $ 37,861 | $ 40,167 | $ - |
| Compensated absences | 108,769 | 115,275 | 15,479 | 208,565 | 200,278 |
| Other post-employment benefits | 3,283 | - | 3,283 | - | - |
| Governmental Activities long-term liabilities | $ 190,080 | $ 115,275 | $ 56,623 | $ 248,732 | $ 200,278 |

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

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ - | $ - |
| 2019 | 19,787 | 1,205 |
| 2020 | 20,380 | 612 |
| | $ 40,167 | $ 1,817 |

The capital lease outstanding at June 30, 2017 is a five year lease maturing July 20, 2019 with a 3% interest rate.

**Current Year Refunding**

On February 1, 2017, the Town entered into an agreement to provide $885,323.85 from a General Obligation Refunding Bond, Series 2017, issued through the VML/VACo Fixed Rate Loan Program. Carter Bank and Trust purchased the Town's Bond at closing. The interest rate on the Series 2017 Bond is 2.65%, fixed until the final maturity of August 1, 2037, and the Bond is prepayable in whole or in part, at any time, without penalty. The Series 2017 Bond was used to refund the Town's outstanding General Obligation Sewer Bond, Series 1999, issued through USDA Rural Development, in order to achieve debt service savings. The 1999 Bonds have been removed from business type activities column in the statement of net position. Total debt service savings over the life of the loan equals approximately $284,892, or $193,443 on a net present value basis. Net present value savings as a percent of refunded par equals 21.54%. The refunded bond had an outstanding balance of $871,323.85 with a 4.50% coupon, and was callable any time.

(Continued)

## Note 8. Defined Benefit Pension Plan

**Plan Description**

All full-time, salaried permanent employees of the Town of Colonial Beach, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

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

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

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

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

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

**Plan Description (Continued)**

**Plan 1 (Continued)**

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

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

**Plan Description (Continued)**

**Plan 1 (Continued)**

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Eligibility** – 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.
  - **Exceptions to COLA Effective Dates** – 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 –** Disability coverage for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

- **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.

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

**Plan Description (Continued)**

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

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

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

__Plan Description__ **(Continued)**

__Plan 2__ **(Continued)**

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

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

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

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

**<u>Plan Description</u> (Continued)**

**<u>Hybrid Retirement Plan</u> (Continued)**

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

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **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 (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

- **Cost-of-Living Adjustment (COLA) in Retirement –**
  - **Defined Benefit Component:** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.

- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Purchase of Prior Service –**
  - **Defined Benefit Component:** Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
- **Defined Contribution Component** – Not Applicable

**Employees Covered by Benefit Terms**

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 42 |
| Inactive members: | |
| Vested inactive members | 10 |
| Non-vested inactive members | 26 |
| Inactive members active elsewhere in VRS | 31 |
| Total inactive members | 67 |
| Active members | 48 |
| Total covered employees | 157 |

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

### Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 12.40% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $87,830 and $220,109 for the years ended June 30, 2017 and June 30, 2016, respectively.

### Net Pension Liability (Asset)

The political subdivision's net pension liability (asset) was measured as of June 30, 2016. The total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

**Actuarial Assumptions**

The total pension liability (asset) for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

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

**Long-Term Expected Rate of Return**

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

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

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%

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

### Discount Rate

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

### Changes in Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) – (b) |
| Balances at June 30, 2015 | $ 5,481,769 | $ 6,071,531 | $ (589,762) |
| Changes for the year: | | | |
| Service cost | 241,205 | - | 241,205 |
| Interest | 374,034 | - | 347,034 |
| Differences between expected and actual experience | (110,313) | - | (110,313) |
| Contributions – employer | - | 215,408 | (215,408) |
| Contributions – employee | - | 90,963 | (90,963) |
| Net investment income | - | 108,507 | (108,507) |
| Benefit payments, including refunds of employee contributions | (276,847) | (276,847) | - |
| Administrative expenses | - | (3,728) | 3,728 |
| Other changes | - | (45) | 45 |
| Net changes | (228,079) | 134,258 | (93,821) |
| Balances at June 30, 2016 | $ 5,709,848 | $ 6,205,789 | $ (495,941) |

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

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

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

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|---|---|---|---|
| Political subdivision's net pension liability (asset) | $ 208,163 | $ (495,941) | $ (1,081,931) |

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $(647,149). At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 290,965 |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 162,692 | - |
| Employer contributions subsequent to the measurement date | 87,830 | - |
| Total | $ 250,525 | $ 290,965 |

(Continued)

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

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $87,830 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | (Reduction) to Pension Expense |
|---|---|
| 2018 | $ (268,137) |
| 2019 | (14,707) |
| 2020 | 91,090 |
| 2021 | 63,481 |

### Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

### Payables to the Pension Plan

At June 30, 2017, approximately $17,856 was payable to the Virginia Retirement System for the legally required contributions related to June 2017 payroll.

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

### General Information about the Teacher Cost Sharing Plan

***Plan Description***

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

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

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

***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2017 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium.

The actuarially rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the school division were $559,615 and $501,479 for the years ended June 30, 2017 and June 30, 2016, respectively.

(Continued)

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

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

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

At June 30, 2017, the school division reported a liability of $6,280,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. The school division's proportion was 0.45% and 0.44% at June 30, 2016 and 2015.

For the year ended June 30, 2017, the school division recognized pension expense of $545,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 203,000 |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 359,000 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 118,000 | 66,000 |
| Employer contributions subsequent to the measurement date | 559,615 | - |
| Total | $ 1,036,615 | $ 269,000 |

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

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

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

The $559,615 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | (Reduction) to Pension Expense |
|---|---|
| 2018 | $ (37,000) |
| 2019 | (37,000) |
| 2020 | 165,000 |
| 2021 | 120,000 |
| 2022 | (3,000) |

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

| | Teacher Employee Retirement Plan |
|---|---|
| Total Pension Liability | $ 44,182,326 |
| Plan Fiduciary Net Position | 30,168,211 |
| Employers' Net Pension Liability (Asset) | $ 14,014,115 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 68.28% |

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

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

***Net Pension Liability (Continued)***

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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

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

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|---|---|---|---|
| School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability | $ 8,952,000 | $ 6,280,000 | $ 4,079,000 |

***Pension Plan Fiduciary Net Position***

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## Note 10. Property Taxes

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

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

The tax rate was $0.70 per $100 of assessed value during the current year. In 2016 and 2017, $0.02 per $100 collected was restricted for debt service related to school capital projects.

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 $3.20 per $100 of assessed value during the current year.

## Note 11. Risk Management

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

## Note 12. Grant Programs

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

## Note 13. Commitments and Contingencies

Contingent Liabilities:

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

State Water Control Board Enforcement Action:

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

Construction Contracts:

The Schools had several construction contracts outstanding at June 30. The contract with RRMM Architects for the new elementary school project totaling $609,321 had the amount of $35,625.47 at year end. Southwood Building Systems, Inc. totaling $7,161,500.00 had the amount of $1,033,130.29 remaining at year end. Finally, the contract with Skanska totaling $188,000.00 had the amount of $31,892.00 at year end.

The Town had one construction contract outstanding at June 30. The contract with Docks of the Bay, LLC for the Replacement of the Boat Launching Facility total is $200,000 and nothing was paid as of June 30, 2017.

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

The Schools previously had an Other Post-Employment Benefits Plan. In fiscal year 2013, the Schools withdrew the plan; however, there was one retired employee receiving benefits under the plan prior to the dissolution. The School Board has agreed to allow the employee to remain on the plan until age 65 in June 2017. The Schools paid the liability in full as of June 30, 2017.

## Note 15. New Accounting Standards

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

**GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*** improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

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

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

(Continued)

## Note 15. New Accounting Standards (Continued)

**GASB Statement No. 83, *Certain Asset Retirement Obligations*** establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

**GASB Statement No. 84, *Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

**GASB Statement No. 85, *Omnibus 2017*** addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

**Note 15. New Accounting Standards (Continued)**

**GASB Statement No. 86, *Certain Debt Extinguishment Issues*** improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 87, *Leases*** establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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

# REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF COLONIAL BEACH, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**
**June 30, 2017**

| | Plan Year | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| **Total Pension Liability** | | | |
| Service cost | $ 241,205 | $ 257,385 | $ 256,695 |
| Interest on total pension liability | 374,034 | 457,665 | 426,010 |
| Difference between expected and actual experience | (110,313) | (1,641,581) | - |
| Benefit payments, including refunds of employee contributions | (276,847) | (259,529) | (201,467) |
| Net change in total pension liability | 228,079 | (1,186,060) | 481,238 |
| **Total pension liability (beginning)** | 5,481,769 | 6,667,829 | 6,186,591 |
| **Total pension liability (ending)** | $ 5,709,848 | $ 5,481,769 | $ 6,667,829 |
| **Plan Fiduciary Net Position** | | | |
| Contributions - employer | $ 215,408 | $ 231,278 | $ 177,284 |
| Contributions - employee | 90,963 | 110,540 | 92,907 |
| Net investment income | 108,507 | 265,605 | 779,244 |
| Benefit payments, including refunds of employee contributions | (276,847) | (259,529) | (201,467) |
| Administrative expenses | (3,728) | (3,505) | (4,098) |
| Other | (45) | (57) | 41 |
| Net change in plan fiduciary net position | 134,258 | 344,332 | 843,911 |
| **Plan fiduciary net position - beginning** | 6,071,531 | 5,727,199 | 4,883,288 |
| **Plan fiduciary net position - ending** | $ 6,205,789 | $ 6,071,531 | $ 5,727,199 |
| **Net pension liability (asset) - ending** | (495,941) | (589,762) | 940,630 |
| Plan fiduciary net position as a percentage of total pension liability | 109% | 111% | 86% |
| Covered payroll | $ 1,775,664 | $ 1,763,631 | $ 1,832,052 |
| Net pension liability (asset) as a percentage of covered payroll | -28% | -33% | 51% |

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

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

EXHIBIT 11

**TOWN OF COLONIAL BEACH, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF PENSION CONTRIBUTIONS**
**June 30, 2017**

| Entity Fiscal Year Ended June 30 | Actuarially Determined Contribution | Contributions in Relation to Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| **Primary Government** | | | | | |
| 2017 | $ 87,830 | $ 87,830 | $ - | $ 1,819,836 | 4.83% |
| 2016 | 220,109 | 220,109 | - | 1,775,664 | 12.40% |
| 2015 | 215,339 | 215,339 | - | 1,763,631 | 12.21% |

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

EXHIBIT 12

**SCHEDULE OF EMPLOYER'S SHARE OF NET POSITIONS LIABILITY**
**VRS TEACHER RETIREMENT PLAN**

| Plan Year Ended June 30 | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Payroll | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| **School Board** | | | | | |
| 2016 | 0.045% | $ 6,280,000 | $ 3,267,444 | 192.20% | 68% |
| 2015 | 0.044% | 5,506,000 | 3,138,519 | 175.43% | 71% |
| 2014 | 0.044% | 5,363,000 | 3,121,667 | 171.80% | 71% |

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

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

EXHIBIT 13

**SCHEDULE OF PENSION CONTRIBUTIONS**
**VRS TEACHER RETIREMENT PLAN**

| Entity Fiscal Year Ended June 30 | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| **School Board** | | | | | |
| 2017 | $ 1,036,615 | $ 1,036,615 | - | $ 3,544,861 | 29.24% |
| 2016 | 501,479 | 501,479 | - | 3,267,444 | 15.35% |
| 2015 | 509,131 | 509,131 | - | 3,138,519 | 16.22% |

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

EXHIBIT 14

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**
**Year Ended June 30, 2017**

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **REVENUES** | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real property | $ 3,401,766 | $ 3,401,766 | $ 3,250,673 | $ (151,093) |
| Personal property | 408,000 | 408,000 | 387,173 | (20,827) |
| Delinquent | 157,050 | 157,050 | 125,140 | (31,910) |
| Penalties and interest | 55,000 | 55,000 | 67,816 | 12,816 |
| Total general property taxes | 4,021,816 | 4,021,816 | 3,830,802 | (191,014) |
| Other local taxes: | | | | |
| Communication sales and use | 200,000 | 200,000 | 201,877 | 1,877 |
| Food and lodging | 547,000 | 547,000 | 506,555 | (40,445) |
| Bank stock | 40,000 | 40,000 | 53,866 | 13,866 |
| Business license taxes | 132,000 | 132,000 | 201,713 | 69,713 |
| Local sales and use taxes | 220,000 | 220,000 | 212,709 | (7,291) |
| Consumer utility taxes | 110,000 | 110,000 | 102,406 | (7,594) |
| Motor vehicle license | 85,000 | 85,000 | 80,074 | (4,926) |
| Cigarette tax | 70,000 | 70,000 | 84,092 | 14,092 |
| Total other local taxes | 1,404,000 | 1,404,000 | 1,443,292 | 39,292 |
| Permits, fees, and licenses | 113,000 | 113,000 | 117,300 | 4,300 |
| Charges for services | 97,000 | 97,000 | 107,894 | 10,894 |
| Use of money and property: | | | | |
| Interest | 12,080 | 12,080 | 22,280 | 10,200 |
| Rental of property | 15,629 | 15,629 | 17,348 | 1,719 |
| Total use of money and property | 27,709 | 27,709 | 39,628 | 11,919 |
| Miscellaneous | 9,935 | 9,935 | 19,087 | 9,152 |
| Intergovernmental | 2,319,956 | 2,765,598 | 1,636,349 | (1,129,249) |
| Total revenue | 7,993,416 | 8,439,058 | 7,194,352 | (1,244,706) |
| **EXPENDITURES** | | | | |
| General government | 1,070,124 | 1,070,124 | 926,856 | 143,268 |
| Public safety | 1,356,922 | 1,356,922 | 1,338,118 | 18,804 |
| Public works | 1,386,943 | 1,536,943 | 1,621,398 | (84,455) |
| Health and welfare | 4,800 | 4,800 | 4,800 | - |
| Parks, recreation, and cultural | 5,000 | 5,000 | 5,000 | - |
| Community development | 1,567,566 | 2,013,208 | 940,870 | 1,072,338 |
| Education | 2,074,807 | 2,074,807 | 2,299,916 | (225,109) |
| Debt service: | | | | |
| Principal retirement | 243,704 | 243,704 | 244,158 | (454) |
| Interest and fiscal charges | 448,550 | 448,550 | 449,298 | (748) |
| Total expenditures | 8,158,416 | 8,754,058 | 7,830,414 | 923,644 |
| Excess of expenditures over revenues | (165,000) | (315,000) | (636,062) | (321,062) |
| **OTHER FINANCING SOURCES** | | | | |
| Capital lease proceeds | - | - | 10,605 | 10,605 |
| Transfers in | 165,000 | 315,000 | 150,000 | (165,000) |
| Total other financing sources | 165,000 | 315,000 | 160,605 | (154,395) |
| Net change in fund balance | $ - | $ - | $ (475,457) | $ (475,457) |

## Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

## Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

# OTHER SUPPLEMENTARY INFORMATION

EXHIBIT 15

## TOWN OF COLONIAL BEACH, VIRGINIA

### VRA DEBT COVENANT
### Year Ended June 30, 2017

| | | Water |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ | 768,178 |
| Connection fees | | 57,280 |
| Total operating revenues | | 825,458 |
| **OPERATING EXPENSES EXCLULDING DEPRECIATION** | | |
| Personnel | | 210,372 |
| Operating | | 209,599 |
| Total operating expenses excluding depreciation | | 419,971 |
| Operating revenue available for debt service | $ | 405,487 |
| **DEBT SERVICE** | | |
| Principal retirement | $ | 170,867 |
| Interest and fiscal charges | | 48,564 |
| Total debt service | | 219,431 |
| Operting revenue in excess of debt payments | $ | 186,056 |

Schedule demonstrates the Town has satisifed the rate covenant required by Virginia Resources Authority for the 2017 Virginia Water Facilities Revolving Fund. No debt payments were made in FY17.

## 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.

EXHIBIT 16

**TOWN OF COLONIAL BEACH, VIRGINIA**

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**
**COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS**
**June 30, 2017**

| | School Operating | School Cafeteria | School Capital Projects | Total Governmental |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 119,748 | $ 68,724 | $ - | $ 188,472 |
| Accounts receivable | - | 9,560 | - | 9,560 |
| Due from other funds | 699,213 | - | - | 699,213 |
| Due from other governments | 243,037 | - | - | 243,037 |
| Restricted cash and cash equivalents | - | - | 1,769,457 | 1,769,457 |
| Total assets | $ 1,061,998 | $ 78,284 | $ 1,769,457 | $ 2,909,739 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | $ 639,742 | $ 17,367 | 1,061,529 | $ 1,718,638 |
| Due to other funds | - | - | 699,213 | $ 699,213 |
| Due to primary government | 23,855 | - | 315,995 | 339,850 |
| Total liabilities | 663,597 | 17,367 | 2,076,737 | 2,757,701 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable revenue | 79,794 | - | - | 79,794 |
| Total deferred inflows of resources | 79,794 | - | - | 79,794 |
| **FUND BALANCES (DEFICITS)** | | | | |
| Restricted: | | | | |
| Elementary School | - | - | 707,928 | 707,928 |
| Assigned: | | | | |
| Education | 318,607 | 60,917 | - | 379,524 |
| Unassigned | - | - | (1,015,208) | (1,015,208) |
| Total fund balances | 318,607 | 60,917 | (307,280) | 72,244 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 1,061,998 | $ 78,284 | $ 1,769,457 | $ 2,909,739 |

| | | |
|---|---|---|
| **Total fund balances** | | $ 72,244 |
| **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 | $ 8,705,319 | |
| Depreciable, net | 2,841,208 | |
| | | 11,546,527 |
| Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds. | | 79,794 |
| Certain expenditures are prepaid but not considered current financial resources in the governmental funds. | | 118,861 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources for 2017 employer contributions | 559,615 | |
| Deferred outflows of resources for the net differences between projected and actual earnings on pension plan investments | 359,000 | |
| Deferred outflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions | 118,000 | |
| Deferred inflows of resources for the differences between expected and actual experience | (203,000) | |
| Deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions | (66,000) | 767,615 |
| 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 | (40,167) | |
| Compensated absences | (208,565) | |
| Net pension liability | (6,280,000) | |
| | | (6,528,732) |
| **Net position of governmental activities** | | $ 6,056,309 |

EXHIBIT 17

**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, 2017**

| | School Operating | School Cafeteria | School Capital Projects | Total Governmental |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Revenues from the use of money and property | $ - | $ - | $ 33,302 | $ 33,302 |
| Charges for services | 42,128 | 62,783 | - | 104,911 |
| Miscellaneous | 16,210 | - | - | 16,210 |
| Payments from primary government | 2,299,916 | - | - | 2,299,916 |
| Intergovernmental | 4,293,651 | 348,672 | - | 4,642,323 |
| Total revenue | 6,651,905 | 411,455 | 33,302 | 7,096,662 |
| **EXPENDITURES** | | | | |
| Education | 6,599,090 | 350,988 | 7,902,915 | 14,852,993 |
| Debt service: | | | | |
| Principal retirement | 37,861 | - | - | 37,861 |
| Interest and fiscal charges | 4,122 | - | - | 4,122 |
| Total expenditures | 6,641,073 | 350,988 | 7,902,915 | 14,894,976 |
| Net change in fund balances | 10,832 | 60,467 | (7,869,613) | (7,798,314) |
| **FUND BALANCES (DEFICITS), JULY 1** | 307,775 | 450 | 7,562,333 | 7,870,558 |
| **FUND BALANCES, JUNE 30** | $ 318,607 | $ 60,917 | $ (307,280) | $ 72,244 |

| | | |
|---|---|---|
| **Net change in fund balances** | | $ (7,798,314) |
| **Reconciliation of amounts reported for governmental activities in the Statement of Activities:** | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital outlays | $ 8,089,889 | |
| Depreciation expense | (232,323) | 7,857,566 |
| Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. | | |
| Employer pension contributions | 1,036,615 | |
| Pension expense | (1,045,479) | (8,864) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | 29,798 |
| 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. | | 37,861 |
| 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 | (140,043) | |
| Changed in net OPEB obligation | 3,283 | |
| Change in compensated absences | (99,796) | (236,556) |
| **Change in net position of governmental activities** | | $ (118,509) |

EXHIBIT 18

**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, 2017**

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Charges for services | $ 35,000 | $ 25,000 | $ 42,128 | $ 17,128 |
| Miscellaneous | 43,334 | 46,744 | 16,210 | (30,534) |
| Payments from primary government | 2,299,916 | 2,299,916 | 2,299,916 | - |
| Intergovernmental | 4,524,075 | 4,693,518 | 4,293,651 | (399,867) |
| Total revenues | 6,902,325 | 7,065,178 | 6,651,905 | (413,273) |
| **EXPENDITURES** | | | | |
| Education | 6,881,325 | 7,044,178 | 6,599,090 | 445,088 |
| Debt service: | | | | |
| Principal retirement | 21,000 | 21,000 | 37,861 | (16,861) |
| Interest and fiscal charges | - | - | 4,122 | (4,122) |
| Total expenditures | 6,902,325 | 7,065,178 | 6,641,073 | 424,105 |
| Net change in fund balance | $ - | $ - | $ 10,832 | $ 10,832 |

# COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

# 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 the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Colonial Beach, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 30, 2017.

## Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Items 2012-001 and 2012-002, that we consider to be material weaknesses.**


Your Success is Our Focus
124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described at Items 2017-002, 2017-003, and 2017-004 in the accompanying schedule of findings and questioned costs.**

**Town of Colonial Beach's Response to Findings**

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

**Purpose of this Report**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2017

BROWNEDWARDS
certified public accountants

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

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

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

We have audited the Town of Colonial Beach, Virginia's (the "Town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2017. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***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, 2017.



124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

***Other Matters***

**The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.**

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

**Report on Internal Control over Compliance**

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 30, 2017

SCHEDULE 1

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year Ended June 30, 2017**

| Federal Granting Agency/Recipient State Agency | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures in Clusters | Federal Expenditures |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Commonwealth of Virginia Department of Agriculture and Consumer Services | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | 40591 | $ 103,205 | |
| National School Lunch Program | 10.555 | 40623 | 253,019 | |
| National School Lunch Program - Commodities | 10.555 | N/A | 10,201 | 366,425 |
| Total U.S. Department of Agriculture | | | | 366,425 |
| **U.S. Department of Transportation** | | | | |
| Pass-through payments: | | | | |
| Virginia Department of Transportation | | | | |
| Highway Planning and Construction | 20.205 | 60302 | | 420,876 |
| Total U.S. Department of Housing and Urban Development | | | | 420,876 |
| **U.S. Department of Housing and Urban Development** | | | | |
| Direct payments: | | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | n/a | | 109,391 |
| Total U.S. Department of Housing and Urban Development | | | | 109,391 |
| **U.S. Department of Education** | | | | |
| Pass-through payments: | | | | |
| Commonwealth of Virginia Department of Education: | | | | |
| Title I - Grants to Local Educational Agencies | 84.010 | 42901 | | 196,783 |
| Special Education - Grants to States | 84.027 | 70110 | 124,341 | |
| Special Education - Preschool Grants | 84.173 | 62521 | 4,643 | 128,984 |
| Career and Technical Education - Basic Grants to States | 84.048 | 60531 | | 8,548 |
| Twenty-First Century Community Learning Centers | 84.287 | n/a | | 135,559 |
| Rural Education | 84.358 | 43481 | | 20,486 |
| Title III, Part A | 84.365 | 60509 | | 1,326 |
| Improving Teacher Quality State Grants | 84.367 | 61480 | | 21,743 |
| Total U.S. Department of Education | | | | 513,429 |
| Total Expenditures of Federal Awards | | | | $ 1,410,121 |

# TOWN OF COLONIAL BEACH, VIRGINIA
# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# Year Ended June 30, 2017

## I. Basis of Presentation

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

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

## II. Non-Cash Assistance

The Town participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of $10,201 from the National School Lunch Program.

## III. De Minimus Indirect Cost Rate

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**
**June 30, 2017**

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

## STATE COMPLIANCE MATTERS

*Code of Virginia*
Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements
Education
Urban Highway Maintenance

## FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2017**

## A. SUMMARY OF AUDITOR'S RESULTS

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

| Name of Program | CFDA # |
|---|---|
| Child Nutrition Cluster | 10.553, 10.555 |
| Highway Planning and Construction | 20.205 |

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

## B. FINDINGS – FINANCIAL STATEMENT AUDIT

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

*Condition:*

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

*Recommendation:*

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

*Management's Response:*

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

### 2012-002: Auditor Adjustments (Material Weakness- Schools)/ (Material Weakness - Town)

*Condition:*

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

*Recommendation:*

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

*Management's Response:*

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

(Continued)

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
**Year Ended June 30, 2017**

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

### 2017-001: Highway Planning and Construction – CFDA Number 20.205

*Criteria:*

Weekly wage certifications are required to be submitted on a weekly basis during the duration of the project, even if no work is performed during that week.

*Condition:*

Weekly wage certifications were submitted only on weeks when work was performed for weeks after January 3, 2017.

*Cause:*

The contractor was unaware of the requirement to submit weekly wage certifications even when no work is performed.

*Effect:*

Weekly wage certifications could inadvertently not be submitted during weeks when work is performed.

*Perspective Information:*

This occurred between January 3, 2017 and June 30, 2017.

*Recommendation:*

We recommend the Town follow-up with contractors to make sure they are complying with compliance requirements.

*Views of Responsible Officials:*

Town management will work to address the issue and ensure that projects going forward have all required wage certifications.

(Continued)

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

### 2017-002: Annual School Report Basis of Accounting (Schools)

*Condition:*

The Annual School Report was completed on the cash basis of accounting rather than the modified accrual basis of accounting.

*Criteria:*

The Annual School Report is required to be completed on the modified accrual basis of accounting per the 2016-2017 Annual School Report Financial Section Instruction Manual.

*Cause:*

The incorrect basis of accounting was used in completing the Annual School Report.

*Recommendation:*

We recommend the report be prepared on the required modified cash basis of accounting and that the Director of Finance of the Schools reach out to the Virginia Department of Education to see if a resubmission is required.

*Management's Response:*

Since the Director of Finance of the Schools is aware of this requirement, the correction will be made for the 2017-2018 Annual School Report.

### 2017-003: Budget Compliance (Town)

*Condition:*

The Town spent $84,455, $225,109, and $1,202 more on public works, education, and debt service than budgeted.

*Criteria:*

It is a violation of the Code of Virginia to expend funds in excess of appropriations.
*Cause:*

Appropriate budget amendments were not approved by Council.

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

### 2017-003: Budget Compliance (Town)

*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.

### 2017-004: Highway Maintenance – Weldon Cooper Report Submission (Town)

*Condition:*

The Weldon Cooper report was not submitted by the March 15, 2017 deadline.

*Criteria:*

Local governments receiving street maintenance funds must submit an annual Weldon Cooper Center Local Finance Survey to the State Department of Transportation accounting for payments received and related expenditures by March 15, 2017.

*Cause:*

The report was submitted on March 24, 2017.

*Recommendation:*

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

*Management's Response:*

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

**TOWN OF COLONIAL BEACH, VIRGINIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
**Year Ended June 30, 2017**

## A. FINDINGS – FINANCIAL STATEMENT AUDIT

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

*Condition:*

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

*Recommendation:*

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

*Current Status:*

Finding is still applicable.

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

*Condition:*

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

*Recommendation:*

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

*Current Status:*

Finding is still applicable.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
**Year Ended June 30, 2017**

## B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

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

*Condition:*

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

*Criteria:*

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

*Effect:*

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

*Recommendation:*

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

*Current Status:*

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