

TOWN OF COLONIAL BEACH, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR  
ENDED JUNE 30, 2018

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TOWN OF COLONIAL BEACH, VIRGINIA

FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018

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# TOWN OF COLONIAL BEACH, VIRGINIA

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## Town Council

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Edward Blunt, Mayor

Frank Alger, III  
Stephen Cirbee  
William Dellar

Dallas Leamon  
Burkett Lyburn  
Phil Rogers

## Town School Board

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Tim Trivett, Chair  
Vicky Roberson, Vice Chair

Brent Steffey  
Patrice Lyburn

Michelle Payne

## Other Officials

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Town Clerk.....Kathleen Flanagan  
Town Attorney.....James E. Cornwell, Jr.  
Acting Chief of Police.....Bruce Hough  
Deputy Town Manager.....Robert Murphy  
Superintendent of Schools.....Dashan Turner

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To The Honorable Members of the Board of Supervisors  
Town of Colonial Beach  
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, and the aggregate remaining fund information of Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2018, 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.

### *Auditors' Responsibility*

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, Virginia, as of June 30, 2018, 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.

## *Change in Accounting Principle*

As described in Note 16 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

## *Restatement of Beginning Balances*

As described in Note 17 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75 as well as for prior year accrual changes and for funds being reverted from the Component Unit School Board to the Town. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 85 and 86-96 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Colonial Beach, Virginia'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 basic 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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 5, 2018, on our consideration of Town of Colonial Beach, Virginia'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 solely 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 the effectiveness of Town of Colonial Beach, Virginia's 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 Town of Colonial Beach, Virginia's internal control over financial reporting and compliance.



Richmond, Virginia  
November 5, 2018

Town of Colonial Beach, Virginia  
Statement of Net Position  
June 30, 2018

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	<u>Activities</u>	<u>Activities</u>		<u>School Board</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,941,889	\$ 507,565	\$ 3,449,454	\$ 525,437
Receivables (net of allowance for uncollectibles):				
Taxes receivable	188,051	-	188,051	-
Accounts receivable	81,722	304,111	385,833	773
Due from other governmental units	73,307	155,341	228,648	161,005
Prepaid items	-	-	-	58,286
Net pension asset	672,481	253,673	926,154	-
Restricted assets:				
Restricted cash and cash equivalents	3,512	388,255	391,767	-
Capital assets (net of accumulated depreciation):				
Land	1,460,330	29,280	1,489,610	57,210
Buildings and improvements	712,502	16,352,453	17,064,955	11,571,045
Equipment	1,685,368	378,600	2,063,968	65,831
Vehicles	269,018	260,791	529,809	283,669
Infrastructure	6,447,050	-	6,447,050	-
Construction in progress	157,306	3,596,716	3,754,022	-
Total assets	\$ 14,692,536	\$ 22,226,785	\$ 36,919,321	\$ 12,723,256
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	\$ 56,298	\$ 23,707	\$ 80,005	\$ 803,804
OPEB related items	6,570	2,497	9,067	85,957
Total deferred outflows of resources	\$ 62,868	\$ 26,204	\$ 89,072	\$ 889,761
<b>LIABILITIES</b>				
Accounts payable and other accrued liabilities	\$ 626,795	472,602	\$ 1,099,397	\$ 616,065
Accrued interest payable	181,892	62,994	244,886	-
Due to other governmental units	1,410,531	-	1,410,531	-
Long-term liabilities:				
Due within one year	322,693	395,483	718,176	41,654
Due in more than one year	10,665,974	9,358,173	20,024,147	6,651,464
Total liabilities	\$ 13,207,885	\$ 10,289,252	\$ 23,497,137	\$ 7,309,183
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - property taxes	\$ 142,323	-	\$ 142,323	\$ -
Pension related items	133,505	65,878	199,383	643,000
OPEB related items	14,492	5,508	20,000	40,000
Total deferred inflows of resources	\$ 290,320	\$ 71,386	\$ 361,706	\$ 683,000
<b>NET POSITION</b>				
Net investment in capital assets	\$ 8,520,414	\$ 10,945,280	\$ 19,465,694	\$ 11,957,375
Restricted for:				
Debt service	-	388,255	388,255	-
Unrestricted (deficit)	(7,263,215)	558,816	(6,704,399)	(6,336,541)
Total net position	\$ 1,257,199	\$ 11,892,351	\$ 13,149,550	\$ 5,620,834

The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 883,329	\$ 940	\$ 2,360	\$ -	\$ (880,029)	\$ -	\$ (880,029)	\$ -
Public safety	1,321,425	20,024	92,973	-	(1,208,428)	-	(1,208,428)	-
Public works	2,139,224	114,146	719,510	-	(1,305,568)	-	(1,305,568)	-
Health and welfare	4,800	-	-	-	(4,800)	-	(4,800)	-
Education	2,885,810	-	-	-	(2,885,810)	-	(2,885,810)	-
Parks, recreation, and cultural	5,000	-	-	-	(5,000)	-	(5,000)	-
Community development	235,536	64,128	-	44,950	(126,458)	-	(126,458)	-
Interest on long-term debt	389,133	-	-	-	(389,133)	-	(389,133)	-
Total governmental activities	\$ 7,864,257	\$ 199,238	\$ 814,843	\$ 44,950	\$ (6,805,226)	\$ -	\$ (6,805,226)	\$ -
Business-type activities:								
Water	\$ 522,619	\$ 841,926	\$ -	\$ -	\$ -	\$ 319,307	\$ 319,307	\$ -
Sewer	2,029,455	1,961,235	-	-	-	(68,220)	(68,220)	-
Total business-type activities	2,552,074	2,803,161	-	-	-	251,087	251,087	-
Total primary government	\$ 10,416,331	\$ 3,002,399	\$ 814,843	\$ 44,950	\$ (6,805,226)	\$ 251,087	\$ (6,554,139)	\$ -
COMPONENT UNIT:								
School Board	\$ 7,331,094	\$ 88,933	\$ 5,090,651	\$ -	\$ -	\$ -	\$ -	(2,151,510)
Total component unit	\$ 7,331,094	\$ 88,933	\$ 5,090,651	\$ -	\$ -	\$ -	\$ -	(2,151,510)
General revenues:								
General property taxes					\$ 3,906,736	\$ -	\$ 3,906,736	\$ -
Local sales and use taxes					225,374	-	225,374	-
Business license taxes					135,925	-	135,925	-
Food and lodging					531,371	-	531,371	-
Consumer utility taxes					104,654	-	104,654	-
Motor vehicle licenses					79,687	-	79,687	-
Other local taxes					135,028	-	135,028	-
Unrestricted revenues from use of money and property					44,327	-	44,327	-
Miscellaneous					17,177	-	17,177	2,180
Grants and contributions not restricted to specific programs					426,001	-	426,001	69,446
Payment from Town of Colonial Beach					-	-	-	2,885,810
Gain on sale of property					148,116	-	148,116	-
Total general revenues					\$ 5,754,396	\$ -	\$ 5,754,396	\$ 2,957,436
Change in net position					\$ (1,050,830)	\$ 251,087	\$ (799,743)	\$ 805,926
Net position - beginning, as restated					2,308,029	11,641,264	13,949,293	4,814,908
Net position - ending					\$ 1,257,199	\$ 11,892,351	\$ 13,149,550	\$ 5,620,834

The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Erosion Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,501,232	\$ 305,589	\$ 135,068	\$ 2,941,889
Receivables (net of allowance for uncollectibles):				
Taxes receivable	188,051	-	-	188,051
Accounts receivable	81,722	-	-	81,722
Due from other governmental units	73,307	-	-	73,307
Restricted assets:				
Restricted cash and cash equivalents	3,512	-	-	3,512
Total assets	<u>\$ 2,847,824</u>	<u>\$ 305,589</u>	<u>\$ 135,068</u>	<u>\$ 3,288,481</u>
<b>LIABILITIES</b>				
Accounts payable and other accrued liabilities	\$ 626,795	\$ -	\$ -	\$ 626,795
Total liabilities	<u>\$ 626,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 626,795</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 303,248	\$ -	\$ -	\$ 303,248
Total deferred inflows of resources	<u>\$ 303,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303,248</u>
<b>FUND BALANCES</b>				
Restricted	\$ 3,512	\$ -	\$ -	\$ 3,512
Committed	264,178	34,468	-	298,646
Assigned	25,000	271,121	135,068	431,189
Unassigned	1,625,091	-	-	1,625,091
Total fund balances	<u>\$ 1,917,781</u>	<u>\$ 305,589</u>	<u>\$ 135,068</u>	<u>\$ 2,358,438</u>

The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2018

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 2,358,438

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

Capital assets, cost	\$ 15,818,803	
Accumulated depreciation	<u>(5,087,229)</u>	10,731,574

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.

Unavailable revenue - property taxes	\$ 160,925	
Net pension asset	<u>672,481</u>	833,406

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items	\$ 56,298	
OPEB related items	<u>6,570</u>	62,868

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

Compensated absences	\$ (89,546)	
Net OPEB liability	(107,961)	
General obligation bonds	(10,275,014)	
Capital leases	(212,726)	
Bond premium	(303,420)	
Due to other governmental units	(1,410,531)	
Accrued interest payable	<u>(181,892)</u>	(12,581,090)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$ (133,505)	
OPEB related items	<u>(14,492)</u>	(147,997)

Net position of governmental activities		<u><u>\$ 1,257,199</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Erosion Fund</u>	<u>Total</u>
<b>REVENUES</b>				
General property taxes	\$ 3,903,900	\$ -	\$ -	\$ 3,903,900
Other local taxes	1,212,039	-	-	1,212,039
Permits, privilege fees, and regulatory licenses	86,852	-	-	86,852
Revenue from the use of money and property	44,327	-	-	44,327
Charges for services	112,386	-	-	112,386
Miscellaneous	17,177	-	-	17,177
Intergovernmental:				
Commonwealth	1,240,844	-	-	1,240,844
Federal	44,950	-	-	44,950
Total revenues	<u>\$ 6,662,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,662,475</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 956,676	\$ -	\$ -	\$ 956,676
Public safety	1,431,271	-	-	1,431,271
Public works	1,754,176	-	-	1,754,176
Health and welfare	4,800	-	-	4,800
Education	2,503,060	382,750	-	2,885,810
Parks, recreation, and cultural	5,000	-	-	5,000
Community development	272,290	-	-	272,290
Debt service:				
Principal retirement	196,609	-	-	196,609
Interest and other fiscal charges	389,793	-	-	389,793
Total expenditures	<u>\$ 7,513,675</u>	<u>\$ 382,750</u>	<u>\$ -</u>	<u>\$ 7,896,425</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (851,200)</u>	<u>\$ (382,750)</u>	<u>\$ -</u>	<u>\$ (1,233,950)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	\$ -	\$ 148,116	\$ -	\$ 148,116
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 148,116</u>	<u>\$ -</u>	<u>\$ 148,116</u>
Net change in fund balances	\$ (851,200)	\$ (234,634)	\$ -	\$ (1,085,834)
Fund balances - beginning, as restated	2,768,981	540,223	135,068	3,444,272
Fund balances - ending	<u>\$ 1,917,781</u>	<u>\$ 305,589</u>	<u>\$ 135,068</u>	<u>\$ 2,358,438</u>

The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds \$ (1,085,834)

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. This is the amount by which the depreciation exceeded capital outlays in the current period. The following is a summary of items supporting this adjustment:

Capital outlays	\$ 344,308	
Depreciation expense	<u>(717,944)</u>	(373,636)

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

Property taxes		(14,683)
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The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on 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. This amount is the net effect of these differences in the treatment of long-term obligations and related items. The following is a summary of items supporting this adjustment:

Principal retirement on general obligation bonds	\$ 165,829	
Principal retirement on capital leases	<u>30,780</u>	196,609

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.

Amortization of bond premium	\$ 11,101	
Pension expense	254,510	
OPEB expense	5,846	
Change in compensated absences	26,698	
Change in amounts due to other governmental units	(61,000)	
Change in accrued interest payable	<u>(10,441)</u>	226,714

Change in net position of governmental activities		<u><u>\$ (1,050,830)</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Statement of Net Position - Proprietary Funds  
For the Year Ended June 30, 2018

	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 369,144	\$ 138,421	\$ 507,565
Accounts receivable (net of allowance for uncollectibles)	<u>88,777</u>	<u>215,334</u>	<u>304,111</u>
Total current assets	\$ <u>457,921</u>	\$ <u>353,755</u>	\$ <u>811,676</u>
Noncurrent assets:			
Restricted cash and cash equivalents	\$ 285,358	\$ 102,897	\$ 388,255
Due from other governmental units	-	155,341	155,341
Net pension asset	63,719	189,954	253,673
Capital Assets:			
Land	2,900	26,380	29,280
Construction in progress	3,596,716	-	3,596,716
Equipment, net of depreciation	-	378,600	378,600
Vehicles, net of depreciation	-	260,791	260,791
Buildings and improvements, net of depreciation	<u>2,442,204</u>	<u>13,910,249</u>	<u>16,352,453</u>
Total noncurrent assets	\$ <u>6,390,897</u>	\$ <u>15,024,212</u>	\$ <u>21,415,109</u>
Total assets	\$ <u>6,848,818</u>	\$ <u>15,377,967</u>	\$ <u>22,226,785</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 5,957	\$ 17,750	\$ 23,707
OPEB related items	<u>615</u>	<u>1,882</u>	<u>2,497</u>
Total deferred outflows of resources	\$ <u>6,572</u>	\$ <u>19,632</u>	\$ <u>26,204</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 403,492	\$ 69,110	\$ 472,602
Accrued interest payable	40,801	22,193	62,994
Compensated absences, current portion	1,032	2,974	4,006
Capital lease, current portion	-	42,008	42,008
General obligation bonds, current portion	<u>257,487</u>	<u>91,982</u>	<u>349,469</u>
Total current liabilities	\$ <u>702,812</u>	\$ <u>228,267</u>	\$ <u>931,079</u>
Noncurrent liabilities:			
Compensated absences, net of current portion	\$ 9,286	\$ 26,765	\$ 36,051
Net OPEB liability	10,107	30,932	41,039
Capital lease, net of current portion	-	245,623	245,623
General obligation bonds, net of current portion	<u>3,503,452</u>	<u>5,532,008</u>	<u>9,035,460</u>
Total noncurrent liabilities	\$ <u>3,522,845</u>	\$ <u>5,835,328</u>	\$ <u>9,358,173</u>
Total liabilities	\$ <u>4,225,657</u>	\$ <u>6,063,595</u>	\$ <u>10,289,252</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related items	\$ 11,201	\$ 54,677	\$ 65,878
OPEB related items	<u>1,356</u>	<u>4,152</u>	<u>5,508</u>
Total deferred inflows of resources	\$ <u>12,557</u>	\$ <u>58,829</u>	\$ <u>71,386</u>
Net Position			
Net investment in capital assets	\$ 2,280,881	\$ 8,664,399	\$ 10,945,280
Restricted:			
Debt Service	285,358	102,897	388,255
Unrestricted assets	<u>50,937</u>	<u>507,879</u>	<u>558,816</u>
Total Net Position	\$ <u>2,617,176</u>	\$ <u>9,275,175</u>	\$ <u>11,892,351</u>

Town of Colonial Beach, Virginia  
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ <u>787,556</u>	\$ <u>1,897,485</u>	\$ <u>2,685,041</u>
Total operating revenues	\$ <u>787,556</u>	\$ <u>1,897,485</u>	\$ <u>2,685,041</u>
Operating expenses:			
Personnel services	\$ 201,021	\$ 496,033	\$ 697,054
Fringe benefits	35,698	63,683	99,381
Contractual services	17,155	122,887	140,042
Other charges	133,669	565,203	698,872
Depreciation	<u>119,669</u>	<u>676,795</u>	<u>796,464</u>
Total operating expenses	\$ <u>507,212</u>	\$ <u>1,924,601</u>	\$ <u>2,431,813</u>
Operating income (loss)	\$ <u>280,344</u>	\$ <u>(27,116)</u>	\$ <u>253,228</u>
Nonoperating revenues (expenses):			
Connection fees	\$ 54,370	\$ 63,750	\$ 118,120
Interest expense	<u>(15,407)</u>	<u>(104,854)</u>	<u>(120,261)</u>
Total nonoperating revenues (expenses)	\$ <u>38,963</u>	\$ <u>(41,104)</u>	\$ <u>(2,141)</u>
Change in net position	\$ 319,307	\$ (68,220)	\$ 251,087
Net position, beginning of year, as restated	<u>2,297,869</u>	<u>9,343,395</u>	<u>11,641,264</u>
Net position, end of year	<u><u>\$ 2,617,176</u></u>	<u><u>\$ 9,275,175</u></u>	<u><u>\$ 11,892,351</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Town of Colonial Beach, Virginia  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2018

	Water	Sewer	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 774,490	\$ 1,865,566	\$ 2,640,056
Payments for employees	(259,726)	(639,812)	(899,538)
Payments to suppliers	237,390	(702,449)	(465,059)
Net cash provided by (used for) operating activities	\$ 752,154	\$ 523,305	\$ 1,275,459
Cash flows from capital and related financing activities:			
Principal paid on long-term debt	\$ (112,679)	\$ (273,915)	\$ (386,594)
Proceeds from issuance of long-term debt	2,132,714	-	2,132,714
Connection fees	54,370	63,750	118,120
Purchase of capital assets	(3,401,304)	(28,975)	(3,430,279)
Interest paid on loans	3,480	(105,061)	(101,581)
Net cash provided by (used for) capital and related financing activities	\$ (1,323,419)	\$ (344,201)	\$ (1,667,620)
Cash flows from noncapital financing activities:			
Interfund borrowing or transfer	\$ -	\$ (40,580)	\$ (40,580)
Net cash provided by (used for) noncapital financing activities	\$ -	\$ (40,580)	\$ (40,580)
Increase (decrease) in cash and cash equivalents	\$ (571,265)	\$ 138,524	\$ (432,741)
Cash and cash equivalents - beginning - (including restricted amounts)	1,225,767	102,794	1,328,561
Cash and cash equivalents - ending - (including restricted amounts)	\$ 654,502	\$ 241,318	\$ 895,820
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 280,344	\$ (27,116)	\$ 253,228
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation	119,669	676,795	796,464
Changes in operating assets and liabilities:			
(Increase)/decrease in accounts receivable	(13,066)	(21,389)	(34,455)
(Increase)/decrease in due from other governmental units	-	(10,530)	(10,530)
(Increase)/decrease in deferred outflows of resources	12,505	26,872	39,377
(Increase)/decrease in net OPEB liability	(1,899)	(5,812)	(7,711)
Increase/(decrease) in accounts payable	388,214	(14,359)	373,855
Increase/(decrease) in deferred inflows of resources	(8,891)	6,987	(1,904)
Increase/(decrease) in net pension asset	(27,161)	(101,591)	(128,752)
Increase/(decrease) in compensated absences	2,439	(6,552)	(4,113)
Net cash provided by (used for) operating activities	\$ 752,154	\$ 523,305	\$ 1,275,459

The accompanying notes to financial statements are an integral part of this statement.

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements As of June 30, 2018

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#### Note 1—Summary of Significant Accounting Policies:

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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 financial statements of the Town of Colonial Beach, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the government's accounting policies are described below.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). The Town has chosen not to present a Management's Discussion and Analysis.

#### Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. 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.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the reporting model, governments provide budgetary comparison information in their annual report, including a requirement to report the government's original budget with the comparison of final budget and actual results.

#### **A. Financial Reporting Entity**

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Colonial Beach (the primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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*Note 1—Summary of Significant Accounting Policies: (Continued)*

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**B. Individual Component Unit Disclosures**

*Blended Component Unit.* The Town has no blended component units at June 30, 2018.

*Discretely Presented Component Units.* 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.

**C. Other Related Organizations Included in the Town's Financial Report**

None

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

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## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within 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 funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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

##### 1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The Town reports the following as major governmental funds:

General Fund - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial transactions and resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board.

Capital Projects Fund - The Town Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays.

Erosion Fund - The Erosion Fund is used to account for financial resources accumulated to be used for beach erosion.

1. Proprietary Funds - Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Water Fund and Sewer Fund.

Water Fund - The water fund accounts for the activities of the water treatment plant and the water distribution system.

Sewer Fund - The sewer fund accounts for the activities of the wastewater treatment plant and the wastewater collection system.

#### E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

#### F. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at the time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

G. 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.

H. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portions of the interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$249,294 at June 30, 2018 and is comprised of property taxes in the amount of \$88,040 and utility accounts in the amount of \$161,254.

Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	June 5 / December 5	December 5
Lien Date	January 1	January 1

The Town bills and collects its own property taxes.

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town and School Board as land, buildings, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) 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 acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements (Continued) As of June 30, 2018

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#### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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##### I. Capital Assets (Continued)

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5-50
Infrastructure	30
Equipment	5-20
Vehicles	5-20

##### J. Prepaid Items

Certain payments to vendors reflect costs applied to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements. Prepaid items are accounted for using the consumption method and are valued at cost.

##### K. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement.

##### L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### M. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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#### N. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

#### O. Pensions

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.

#### P. Other Postemployment Benefits (OPEB)

##### Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 1—Summary of Significant Accounting Policies: (Continued)*

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#### P. Other Postemployment Benefits (OPEB) (Continued)

##### Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the VRS Teacher Employee HIC Program; and the additions to/deductions from the VRS Teacher Employee HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Q. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

#### R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset/liability and net OPEB asset/liability(ies) and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset/liability and net OPEB asset/liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, and is deferred and recognized as an inflow of resources in the period that the amount becomes available. In addition, certain items related to the measurement of the net pension asset/liability and net OPEB asset/liability(ies) are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

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S. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - 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 fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

# TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

## *Note 1—Summary of Significant Accounting Policies: (Continued)*

### S. Fund Equity (Continued)

The details of governmental fund balances, as presented in aggregate on Exhibit 3, are as follows:

	General Fund	Capital Projects	Erosion Fund	Total
<b>Fund Balances:</b>				
<b>Restricted:</b>				
Debt service	\$ 3,512	\$ -	\$ -	\$ 3,512
Total Restricted Fund Balance	\$ 3,512	\$ -	\$ -	\$ 3,512
<b>Committed:</b>				
Fire department	\$ -	\$ 8,617	\$ -	\$ 8,617
Rescue squad	-	8,617	-	8,617
Schools	-	17,234	-	17,234
Paving	264,178	-	-	264,178
Total Committed Fund Balance	\$ 264,178	\$ 34,468	\$ -	\$ 298,646
<b>Assigned:</b>				
Capital projects	\$ -	\$ 271,121	\$ -	\$ 271,121
Marketing services	25,000	-	-	25,000
Erosion funds	-	-	135,068	135,068
Total Assigned Fund Balance	\$ 25,000	\$ 271,121	\$ 135,068	\$ 431,189
<b>Unassigned</b>	\$ 1,625,091	\$ -	\$ -	\$ 1,625,091
Total Fund Balances	\$ 1,917,781	\$ 305,589	\$ 135,068	\$ 2,358,438

### T. 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 the purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### U. 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.

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements (Continued) As of June 30, 2018

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#### *Note 2—Stewardship, Compliance, and Accounting:*

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

1. Prior to June 10th, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital 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 Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriation for each department or category can be revised only by the Board of Supervisors. The Town Manager is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, every year.
7. All budgetary data presented in the accompanying financial statements is from the revised budget as of June 30, 2018, as adopted and legally amended.

#### *Note 3—Deposits and Investments:*

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##### Deposits

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

##### Investments

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, and the State Treasurer's Local Government Investment Pool (LGIP).

## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 3—Deposits and Investments: (Continued)*

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#### 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 and 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 and 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 and Poor’s and “P-1” by Moody’s Investor Services. 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 and Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard and 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.

#### 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.

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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*Note 4—Due to/from Other Governments:*

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At June 30, 2018, the Town has receivables from other governments as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>
Other Local Governments:		
Westmoreland County	\$ 155,341	\$ -
Commonwealth of Virginia:		
Local sales tax	43,489	-
State Sales Tax	-	86,267
Communications tax	29,818	-
Federal Government:		
School fund grants	<u>-</u>	<u>74,738</u>
Total due from other governments	\$ <u>228,648</u>	\$ <u>161,005</u>

At June 30, 2018, long-term amounts due to other local governments are as follows:

Other Local Governments:		
Westmoreland County	\$ <u>1,410,531</u>	\$ <u>-</u>

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 5—Capital Assets:*

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

Primary Government:

	<u>Balance July 1, 2017</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance June 30, 2018</u>
Governmental activities:				
Capital assets not subject to depreciation:				
Land	\$ 1,460,330	\$ -	\$ -	\$ 1,460,330
Construction in progress	<u>1,136,455</u>	<u>210,349</u>	<u>1,189,498</u>	<u>157,306</u>
Total capital assets not subject to depreciation	<u>\$ 2,596,785</u>	<u>\$ 210,349</u>	<u>\$ 1,189,498</u>	<u>\$ 1,617,636</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 1,084,959	\$ -	\$ -	\$ 1,084,959
Infrastructure	8,710,694	1,189,498	-	9,900,192
Equipment	887,784	1,450,225	-	2,338,009
Vehicles	<u>863,077</u>	<u>33,265</u>	<u>18,335</u>	<u>878,007</u>
Total capital assets being depreciated	<u>\$ 11,546,514</u>	<u>\$ 2,672,988</u>	<u>\$ 18,335</u>	<u>\$ 14,201,167</u>
Accumulated depreciation:				
Buildings and improvements	\$ 342,028	\$ 30,429	\$ -	\$ 372,457
Infrastructure	2,861,015	592,127	-	3,453,142
Equipment	617,663	34,978	-	652,641
Vehicles	<u>566,914</u>	<u>60,410</u>	<u>18,335</u>	<u>608,989</u>
Total accumulated depreciation	<u>\$ 4,387,620</u>	<u>\$ 717,944</u>	<u>\$ 18,335</u>	<u>\$ 5,087,229</u>
Total capital assets being depreciated, net	<u>\$ 7,158,894</u>	<u>\$ 1,955,044</u>	<u>\$ -</u>	<u>\$ 9,113,938</u>
Governmental activities capital assets, net	<u><u>\$ 9,755,679</u></u>	<u><u>\$ 2,165,393</u></u>	<u><u>\$ 1,189,498</u></u>	<u><u>\$ 10,731,574</u></u>

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 5—Capital Assets: (Continued)*

Primary Government:	Balance July 1, 2017	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2018
Business-type activities:				
Capital assets not subject to depreciation:				
Land	\$ 29,280	\$ -	\$ -	\$ 29,280
Construction in progress	195,412	3,401,304	-	3,596,716
Total capital assets not subject to depreciation	\$ 224,692	\$ 3,401,304	\$ -	\$ 3,625,996
Capital assets subject to depreciation:				
Buildings and improvements	\$ 28,069,161	\$ 17,281	\$ -	\$ 28,086,442
Equipment	699,852	11,694	-	711,546
Vehicles	684,148	-	-	684,148
Total capital assets being depreciated	\$ 29,453,161	\$ 28,975	\$ -	\$ 29,482,136
Accumulated depreciation:				
Buildings and improvements	\$ 11,057,446	\$ 676,543	\$ -	\$ 11,733,989
Equipment	281,333	51,613	-	332,946
Vehicles	355,049	68,308	-	423,357
Total accumulated depreciation	\$ 11,693,828	\$ 796,464	\$ -	\$ 12,490,292
Total capital assets being depreciated, net	\$ 17,759,333	\$ (767,489)	\$ -	\$ 16,991,844
Business-type activities capital assets, net	\$ 17,984,025	\$ 2,633,815	\$ -	\$ 20,617,840

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 5—Capital Assets: (Continued)*

Component Unit - School Board:	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not subject to depreciation:				
Land	\$ 57,210	\$ -	\$ -	\$ 57,210
Construction in progress	8,648,109	631,131	9,279,240	-
Total capital assets not subject to depreciation	\$ 8,705,319	\$ 631,131	\$ 9,279,240	\$ 57,210
Capital assets subject to depreciation:				
Buildings and improvements	\$ 4,165,763	\$ 9,279,240	\$ 1,000	\$ 13,444,003
Equipment	111,236	-	-	111,236
Vehicles	877,321	18,000	-	895,321
Total capital assets being depreciated	\$ 5,154,320	\$ 9,297,240	\$ 1,000	\$ 14,450,560
Accumulated depreciation:				
Buildings and improvements	\$ 1,729,243	\$ 144,715	\$ 1,000	\$ 1,872,958
Equipment	31,965	13,440	-	45,405
Vehicles	551,904	59,748	-	611,652
Total accumulated depreciation	\$ 2,313,112	\$ 217,903	\$ 1,000	\$ 2,530,015
Total capital assets being depreciated, net	\$ 2,841,208	\$ 9,079,337	\$ -	\$ 11,920,545
School Board capital assets, net	\$ 11,546,527	\$ 9,710,468	\$ 9,279,240	\$ 11,977,755

Depreciation expense was charged to functions/programs as follows:

Primray Government:	
Governmental activities:	
General government administration	\$ 29,453
Public safety	26,954
Public works	660,812
Community development	725
Total Governmental activities	\$ 717,944
Business-type activities:	
Water fund	\$ 119,669
Sewer fund	676,795
Total Business-type activities	\$ 796,464
Component Unit School Board	\$ 217,903

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

Note 6—Long-Term Obligations:

Primary Government:

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2018:

	Restated Balance at July 1, 2017	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2018	Amounts Due Within One Year
Governmental Activities Obligations:					
General obligation bonds	\$ 10,440,843	\$ -	\$ 165,829	\$ 10,275,014	\$ 271,430
Bond premium	314,521	-	11,101	303,420	11,101
Capital leases	243,506	-	30,780	212,726	31,207
Compensated absences	116,244	69,740	96,438	89,546	8,955
Net OPEB liability	128,250	724	21,013	107,961	-
Total incurred by Town	\$ 11,243,364	\$ 70,464	\$ 325,161	\$ 10,988,667	\$ 322,693
Business-type Activities Obligations:					
General obligation bonds	\$ 7,598,096	\$ 2,132,714	\$ 345,881	\$ 9,384,929	\$ 349,469
Capital lease	328,344	-	40,713	287,631	42,008
Compensated absences	44,170	28,219	32,332	40,057	4,006
Net OPEB liability	48,750	276	7,987	41,039	-
Total Business-type Activities Obligations	\$ 8,019,360	\$ 2,161,209	\$ 426,913	\$ 9,753,656	\$ 395,483

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 6—Long-Term Obligations: (Continued)*

Primary Government: (Continued)

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

Year Ending June 30	Governmental Activities				Business-type Activities			
	General Obligation		Capital Leases		General Obligation		Capital Lease	
	Bonds				Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 271,430	\$ 363,241	\$ 31,207	\$ 4,962	\$ 349,469	\$ 136,590	\$ 42,008	\$ 6,466
2020	283,410	351,456	31,991	4,155	353,544	130,445	42,952	5,490
2021	287,880	342,041	32,785	3,325	354,215	124,228	43,896	4,492
2022	283,760	332,494	32,977	2,471	339,753	118,189	44,840	3,473
2023	300,740	319,753	31,898	1,689	343,864	112,272	45,902	2,431
2024-2028	1,652,350	1,395,088	51,868	1,140	1,685,573	470,716	68,033	1,640
2029-2033	1,905,990	1,073,868	-	-	1,131,536	342,322	-	-
2034-2038	1,914,454	759,977	-	-	905,215	217,328	-	-
2039-2043	1,990,000	436,254	-	-	475,661	145,752	-	-
2044-2048	1,385,000	77,634	-	-	511,222	95,938	-	-
2049-2053	-	-	-	-	545,729	42,537	-	-
2054-2058	-	-	-	-	108,443	6,644	-	-
To be determined	-	-	-	-	2,280,705	-	-	-
Total	<u>\$ 10,275,014</u>	<u>\$ 5,451,806</u>	<u>\$ 212,726</u>	<u>\$ 17,742</u>	<u>\$ 9,384,929</u>	<u>\$ 1,942,961</u>	<u>\$ 287,631</u>	<u>\$ 23,992</u>

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# TOWN OF COLONIAL BEACH, VIRGINIA

## Notes to Financial Statements (Continued) As of June 30, 2018

### Note 6—Long-Term Obligations: (Continued)

#### Primary Government: (Continued)

#### Details of long-term obligations:

	Interest Rate	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Bonds:						
General Obligation Public Improvement Bonds	0.00%	2008	2029	\$ 2,672,000	\$ -	\$ 1,313,052
General Obligation Public Improvement Bonds	2.50%	2010	2050	1,088,000	-	919,868
USDA Rural Development Note Payable	4.25%	2011	2026	265,428	-	166,011
General Obligation Sewer Bonds	1.88%	2013	2053	2,460,000	-	2,321,914
General Obligation Public Improvement Bonds	3.09%	2014	2035	1,946,000	1,140,014	584,986
General Obligation Public Improvement and Refunding Bond	2.65%	2015	2035	1,775,000	555,000	945,000
Virginia Public School Authority Bonds	3.52%	2015	2046	8,630,000	8,580,000	-
General Obligation Bond- Carter Bank	2.65%	2017	2037	885,324	-	853,393
Virginia Resource Authority Revolving Fund	2.35%	2017	2038	4,374,004	-	2,280,705
					<u>\$ 10,275,014</u>	<u>\$ 9,384,929</u>
Capital Leases:						
Master Equipment Lease	2.31%	2015	2024	\$ 718,000	\$ 204,470	\$ 287,631
Pitney Bowes Capital Lease	6.25%	2017	2022	10,605	8,256	-
					<u>\$ 212,726</u>	<u>\$ 287,631</u>

#### VP SA 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.

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TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 6—Long-Term Obligations: (Continued)*

Discretely Presented Component Unit-School Board:

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2018:

	Restated Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018	Amounts Due Within One Year
Component Unit-School Board:					
Capital lease	\$ 40,167	\$ -	\$ 19,787	\$ 20,380	\$ 20,380
Compensated absences	208,565	204,451	200,278	212,738	21,274
Net pension liability	6,280,000	935,000	1,635,000	5,580,000	-
Net OPEB liabilities	901,000	77,000	98,000	880,000	-
Total Component Unit-School Board	<u>\$ 7,429,732</u>	<u>\$ 1,216,451</u>	<u>\$ 1,953,065</u>	<u>\$ 6,693,118</u>	<u>\$ 41,654</u>

The capital lease outstanding at June 30, 2018 is a five year lease maturing July 20, 2019 with a 3% interest rate.

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

Year Ending June 30	Capital Leases	
	Principal	Interest
2019	<u>\$ 20,380</u>	<u>\$ 612</u>
Total	<u>\$ 20,380</u>	<u>\$ 612</u>

*Note 7—Deferred/Unavailable Revenue:*

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Deferred/unavailable revenue is comprised of the following:

Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$160,925 at June 30, 2018.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2018 but paid in advance by the taxpayers totaled \$142,323 at June 30, 2018.

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements (Continued) As of June 30, 2018

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#### *Note 8—Contingent Liabilities:*

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Federal programs in which the Town and discretely presented component unit participate were audited in accordance with the provisions of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

The following construction contracts were outstanding at June 30, 2018:

Fund	Project	Contractor	Amount Of Contract	Contract Outstanding At June 30, 2018
Water	Robin Grove Water Facility Improvements	Anderson Construction Inc	\$ 1,539,054	\$ 422,651
	Mobile Radio Read System and Water Meter			
Water	Purchase and Install	Ferguson Waterworks	671,843	104,308

#### *Note 9—Litigation:*

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At June 30, 2018, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

#### *Note 10—Risk Management:*

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

*Note 11—Pension Plan:**Plan Description*

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> 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.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in 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.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>*Non-Eligible Members (Cont.)</b> 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.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b> 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.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> 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.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contribution Component:</b></u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

*Note 11—Pension Plan: (Continued)**Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <u><b>Defined Benefit Component:</b></u> 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.</p> <p><u><b>Defined Contribution Component:</b></u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> </ul>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.)</p> <p><u>Defined Contribution Component:</u> (Cont.)</p> <ul style="list-style-type: none"> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>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.</p> <p>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.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> 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.</p>
<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier VRS: 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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: 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.</p>	<p>Service Retirement Multiplier VRS: 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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u><b>Eligibility:</b></u> 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.</p> <p>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.</p> <p><u><b>Exceptions to COLA Effective Dates:</b></u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u><b>Eligibility:</b></u> Same as Plan 1.</p> <p><u><b>Exceptions to COLA Effective Dates:</b></u> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 2.</p> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p> <p><u><b>Eligibility:</b></u> Same as Plan 1 and Plan 2.</p> <p><u><b>Exceptions to COLA Effective Dates:</b></u> Same as Plan 1 and Plan 2.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.)  Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service 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.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> <li>Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <u>Defined Contribution Component:</u> Not applicable.

*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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*Note 11—Pension Plan: (Continued)*

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*Employees Covered by Benefit Terms*

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government
Inactive members or their beneficiaries currently receiving benefits	42
Inactive members:	
Vested inactive members	10
Non-vested inactive members	29
Inactive members active elsewhere in VRS	28
Total inactive members	67
Active members	50
Total covered employees	159

*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% 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 Town's contractually required employer contribution rate for the year ended June 30, 2018 was 4.94% 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 Town were \$80,005 and \$87,830 for the years ended June 30, 2018 and June 30, 2017, respectively.

## TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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### *Note 11—Pension Plan: (Continued)*

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#### *Net Pension Liability (Asset)*

The Town's net pension liability (asset) were measured as of June 30, 2017. The total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

#### *Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, 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 return 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:*

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

##### *Pre-Retirement:*

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

##### *Post-Retirement:*

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

##### *Post-Disablement:*

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Actuarial Assumptions - General Employees (Continued)*

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

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*Note 11—Pension Plan: (Continued)*

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*Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits*

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, 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 return 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:**

**Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)*

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

*Discount Rate*

The discount rate used to measure the total pension liability 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, 2019, the rate contributed by the employer for the Town 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, 2019 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.

*Changes in Net Pension Liability (Asset)*

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 5,709,848	\$ 6,205,789	\$ (495,941)
Changes for the year:			
Service cost	\$ 245,807	\$ -	\$ 245,807
Interest	389,948	-	389,948
Assumption changes	(19,387)	-	(19,387)
Differences between expected and actual experience	(126,491)	-	(126,491)
Contributions - employer	-	85,964	(85,964)
Contributions - employee	-	87,594	(87,594)
Net investment income	-	751,554	(751,554)
Benefit payments, including refunds of employee contributions	(278,337)	(278,337)	-
Administrative expenses	-	(4,353)	4,353
Other changes	-	(669)	669
Net changes	\$ 211,540	\$ 641,753	\$ (430,213)
Balances at June 30, 2017	\$ 5,921,388	\$ 6,847,542	\$ (926,154)

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—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 Town using the discount rate of 7.00%, as well as what the Town'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:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Town's			
Net Pension Liability (Asset) \$	(204,509) \$	(926,154) \$	(1,528,220)

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

For the year ended June 30, 2018, the Town recognized pension expense of (\$273,139). At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 90,262
Change of assumptions	-	10,958
Net difference between projected and actual earnings on pension plan investments	-	98,163
Employer contributions subsequent to the measurement date	80,005	-
Total	\$ 80,005	\$ 199,383

\$80,005 reported as deferred outflows of resources related to pensions resulting from the Town's contributions, subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability (Asset) in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government
2019	\$ (142,330)
2020	7,864
2021	(717)
2022	(64,200)
2023	-
Thereafter	-

*Note 11—Pension Plan: (Continued)*

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Component Unit School Board (professional)

*Plan Description*

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information regarding the plan description can be found in the first section of this note.

*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.

Each School Division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% 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 determined 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 School Board were \$569,804 and \$559,615 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the school division reported a liability \$5,580,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.04537% as compared to 0.04481% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$432,000. 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.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

Component Unit School Board (professional) (Continued)

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

At June 30, 2018, 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 \$	-	\$ 394,000
Change of assumptions	81,000	-
Net difference between projected and actual earnings on pension plan investments	-	203,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	153,000	46,000
Employer contributions subsequent to the measurement date	569,804	-
Total	\$ 803,804	\$ 643,000

\$569,804 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 fiscal 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 in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (199,000)
2020	7,000
2021	(39,000)
2022	(164,000)
2023	(14,000)

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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*Note 11—Pension Plan: (Continued)*

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Component Unit School Board (professional) (Continued)

*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.95%
Investment rate of return	7.0%, net of pension plan investment expenses, 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 return 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:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

Component Unit School Board (professional) (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

*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, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		Teacher Employee Retirement Plan
Total Pension Liability	\$	45,417,520
Plan Fiduciary Net Position		33,119,545
Employers' Net Pension Liability (Asset)	\$	<u>12,297,975</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		72.92%

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.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

*Note 11—Pension Plan: (Continued)*

Component Unit School Board (professional) (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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Asests	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each one of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

*Note 11—Pension Plan: (Continued)*Component Unit School Board (professional) (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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, 2019, the rate contributed by the school division for the VRS Teacher 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, 2019 on, school divisions 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.

*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 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:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan			
Net Pension Liability (Asset) \$	8,333,000 \$	5,580,000 \$	3,303,000

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan):**

**Plan Description**

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p><b>Eligible Employees</b></p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> <li>• City of Richmond</li> <li>• City of Portsmouth</li> <li>• City of Roanoke</li> <li>• City of Norfolk</li> <li>• Roanoke City School Board</li> </ul> <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)****Plan Description (Continued)**

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p><b>Benefit Amounts</b></p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> <li>• <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li> <li>• <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit.</li> <li>• <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> <li>○ Accidental dismemberment benefit</li> <li>○ Safety belt benefit</li> <li>○ Repatriation benefit</li> <li>○ Felonious assault benefit</li> <li>○ Accelerated death benefit option</li> </ul> </li> </ul>
<p><b>Reduction in Benefit Amounts</b></p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p><b>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</b></p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

**Contributions**

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Town were \$9,067 and \$9,482 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

**Contributions (Continued)**

Contributions to the Group Life Insurance Program from the Component Unit School Board professional group were \$18,797 and \$18,877 for the years ended June 30, 2018 and June 30, 2017, respectively.

**GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB**

At June 30, 2018, the Town reported a liability of \$149,000 for its proportionate share of the Net GLI OPEB Liability. The Component Unit School Board professional group reported a liability of \$296,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Town's proportion was 0.00988% as compared to 0.01011% at June 30, 2016. At June 30, 2017, the Component Unit School Board professional group's proportion was 0.01968% as compared to 0.01901% at June 30, 2016.

For the year ended June 30, 2018, the Town recognized GLI OPEB expense of \$1,000. For the year ended June 30, 2018, the Component Unit School Board professional group recognized GLI OPEB expense of \$5,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,000	\$ -	\$ 7,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	6,000	-	11,000
Change of assumptions	-	8,000	-	15,000
Changes in proportionate share	-	3,000	10,000	-
Employer contributions subsequent to the measurement date	9,067	-	18,797	-
Total	\$ 9,067	\$ 20,000	\$ 28,797	\$ 33,000

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)****GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)**

\$9,067 and \$18,797, respectively, reported as deferred outflows of resources related to the GLI OPEB resulting from the Town and Component Unit School Board professional group's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

		Primary	Component Unit
		Government	School Board
Year Ended			(professional)
June 30			
2019	\$	(4,000)	\$ (5,000)
2020		(4,000)	(5,000)
2021		(4,000)	(5,000)
2022		(3,000)	(5,000)
2023		(2,000)	(2,000)
Thereafter		(3,000)	(1,000)

**Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, 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 return 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 OPEB liabilities.

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - General State Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - Teachers**

**Pre-Retirement:**

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

**Post-Retirement:**

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - SPORS Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - VaLORS Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

TOWN OF COLONIAL BEACH, VIRGINIA

Notes to Financial Statements (Continued)  
As of June 30, 2018

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - JRS Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - Largest Ten Locality Employers - General Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

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**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions: (Continued)**

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)****Actuarial Assumptions: (Continued)****Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

**Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees****Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)****Actuarial Assumptions: (Continued)****Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

**NET GLI OPEB Liability**

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$ 1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB 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 GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)****Long-Term Expected Rate of Return**

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

**Discount Rate**

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

**Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)*****Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate***

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 192,000	\$ 149,000	\$ 113,000
Component School Board (professional)'s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 383,000	\$ 296,000	\$ 226,000

***Group Life Insurance Program Fiduciary Net Position***

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):****Plan Description**

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS
<p><b>Eligible Employees</b></p> <p>The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> <li>• Full-time permanent (professional) salaried employees of public school divisions covered under VRS.</li> </ul>
<p><b>Benefit Amounts</b></p> <p>The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> <li>• <u>At Retirement</u> - For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.</li> <li>• <u>Disability Retirement</u> - For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: <ul style="list-style-type: none"> <li>○ \$4.00 per month, multiplied by twice the amount of service credit, or</li> <li>○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.</li> </ul> </li> </ul>
<p><b>Health Insurance Credit Program Notes:</b></p> <ul style="list-style-type: none"> <li>• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.</li> <li>• Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.</li> </ul>

***Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)***

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***Contributions***

The contribution requirements for active employees is governed by §51.1-1401(E) 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. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate 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 from the school division to the VRS Teacher Employee Health Insurance Credit Program were \$44,160 and \$40,295 for the years ended June 30, 2018 and June 30, 2017, respectively.

***Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB***

At June 30, 2018, the school division reported a liability of \$584,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was 0.04600% as compared to 0.04481% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$49,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)****Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)**

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	\$ -	\$ 1,000
Change of assumptions	-	6,000
Change in proportion share	13,000	-
Employer contributions subsequent to the measurement date	44,160	-
Total	\$ 57,160	\$ 7,000

\$44,160 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ 1,000
2020	1,000
2021	1,000
2022	1,000
2023	1,000
Thereafter	1,000

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**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)**

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**Actuarial Assumptions**

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, 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 return 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 OPEB liabilities.

**Mortality Rates - Teachers****Pre-Retirement:**

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

**Post-Retirement:**

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)****Actuarial Assumptions: (Continued)****Mortality Rates - Teachers: (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

**Net Teacher Employee HIC OPEB Liability**

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$	1,364,702
Plan Fiduciary Net Position		96,091
Teacher Employee net HIC OPEB Liability (Asset)	\$	<u>1,268,611</u>

**Plan Fiduciary Net Position as a Percentage**

of the Total Teacher Employee HIC OPEB Liability 7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)****Long-Term Expected Rate of Return**

The long-term expected rate of return on the VRS 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 VRS 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

**Discount Rate**

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB 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 Teacher Employee HIC OPEB liability.

**Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*****Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate***

The following presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB 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:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	\$ 652,000	\$ 584,000	\$ 526,000

***Teacher Employee HIC OPEB Fiduciary Net Position***

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements (Continued)

As of June 30, 2018

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#### *Note 14 - Line of Duty Act (LODA) (OPEB Benefits):*

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The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The Town has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the Town to VML. VML assumes all liability for the Town's LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The Town's LODA coverage is fully covered or "insured" through VML. This is built into the LODA coverage cost presented in the annual renewals. The Town's LODA premium for the year ended June 30, 2018 was \$6,642.

#### *Note 15—Upcoming Pronouncements:*

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Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

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 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to

## TOWN OF COLONIAL BEACH, VIRGINIA

### Notes to Financial Statements (Continued)

As of June 30, 2018

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#### *Note 15—Upcoming Pronouncements: (Continued)*

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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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

# TOWN OF COLONIAL BEACH, VIRGINIA

## Notes to Financial Statements (Continued) As of June 30, 2018

### *Note 16—Adoption of Accounting Principles:*

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Town implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

### *Note 17—Restatement of Net Position and Fund Balance:*

The following adjustments were made to beginning net position and fund balance:

	Net Position				Fund Balance	
	Governmental Activities	Business-type Activities		Component Unit School Board	General Fund	School Operating Fund
		Water	Sewer			
Balance, July 1, 2017, as previously stated	\$ 2,080,687	\$ 2,309,265	\$ 9,307,885	\$ 6,056,309	\$ 2,380,248	\$ 318,607
Prior year accrual that was not received	(8,492)	-	-	-	(8,492)	-
Adjustment to prior year revenue accruals	-	-	-	(40,838)	39,662	38,956
Reversion of school operating fund to Town's General Fund	357,563	-	-	(357,563)	357,563	(357,563)
Removal of prior year accrued liability	-	-	70,386	-	-	-
Implementation of GASB 75:						
Deferred outflows of resources	6,521	610	1,868	58,000	-	-
Net OPEB liability	(128,250)	(12,006)	(36,744)	(901,000)	-	-
Balance, July 1, 2017, as restated	<u>\$ 2,308,029</u>	<u>\$ 2,297,869</u>	<u>\$ 9,343,395</u>	<u>\$ 4,814,908</u>	<u>\$ 2,768,981</u>	<u>\$ -</u>

Town of Colonial Beach, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Negative)</u>
<b>REVENUES</b>				
General property taxes:				
Real property	\$ 3,397,782	\$ 3,397,782	\$ 3,311,464	\$ (86,318)
Personal property	408,050	408,050	415,161	7,111
Delinquent	155,000	155,000	129,356	(25,644)
Penalties and interest	55,000	55,000	47,919	(7,081)
Other local taxes:				
Food and lodging	558,000	558,000	531,371	(26,629)
Bank stock	40,000	40,000	64,762	24,762
Business license taxes	132,000	132,000	135,925	3,925
Local sales and use taxes	220,000	220,000	225,374	5,374
Consumer utility taxes	110,000	110,000	104,654	(5,346)
Motor vehicle license	85,000	85,000	79,687	(5,313)
Cigarette tax	70,000	70,000	70,266	266
Permits, privilege fees, and regulatory licenses	103,500	103,500	86,852	(16,648)
Revenue from the use of money and property:				
Interest	17,200	17,200	28,600	11,400
Rental of property	47,087	47,087	15,727	(31,360)
Charges for services	116,258	116,258	112,386	(3,872)
Miscellaneous	6,500	6,500	17,177	10,677
Intergovernmental:				
Commonwealth	1,640,403	1,643,393	1,240,844	(402,549)
Federal	140,776	140,776	44,950	(95,826)
Total revenues	<u>\$ 7,302,556</u>	<u>\$ 7,305,546</u>	<u>\$ 6,662,475</u>	<u>\$ (643,071)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,199,253	\$ 1,137,067	\$ 956,676	\$ 180,391
Public safety	1,356,143	1,413,491	1,431,271	(17,780)
Public works	1,531,716	1,748,170	1,754,176	(6,006)
Health and welfare	4,000	4,800	4,800	-
Education	2,299,916	2,682,666	2,503,060	179,606
Parks, recreation, and cultural	5,000	5,000	5,000	-
Community development	802,668	781,232	272,290	508,942
Debt service:				
Principal retirement	191,671	191,671	196,609	(4,938)
Interest and other fiscal charges	377,189	389,199	389,793	(594)
Total expenditures	<u>\$ 7,767,556</u>	<u>\$ 8,353,296</u>	<u>\$ 7,513,675</u>	<u>\$ 839,621</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (465,000)</u>	<u>\$ (1,047,750)</u>	<u>\$ (851,200)</u>	<u>\$ 196,550</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 465,000	\$ 465,000	\$ -	\$ (465,000)
Total other financing sources (uses)	<u>\$ 465,000</u>	<u>\$ 465,000</u>	<u>\$ -</u>	<u>\$ (465,000)</u>
Net change in fund balances	\$ -	\$ (582,750)	\$ (851,200)	\$ (268,450)
Fund balances - beginning, as restated	-	582,750	2,768,981	2,186,231
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,917,781</u>	<u>\$ 1,917,781</u>

Town of Colonial Beach, Virginia  
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios  
Primary Government  
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 245,807	\$ 241,205	\$ 257,385	\$ 256,695
Interest	389,948	374,034	457,665	426,010
Changes of assumptions	(19,387)	-	-	-
Differences between expected and actual experience	(126,491)	(110,313)	(1,641,581)	-
Benefit payments, including refunds of employee contributions	(278,337)	(276,847)	(259,529)	(201,467)
Net change in total pension liability	\$ 211,540	\$ 228,079	\$ (1,186,060)	\$ 481,238
Total pension liability - beginning	5,709,848	5,481,769	6,667,829	6,186,591
Total pension liability - ending (a)	<u>\$ 5,921,388</u>	<u>\$ 5,709,848</u>	<u>\$ 5,481,769</u>	<u>\$ 6,667,829</u>
Plan fiduciary net position				
Contributions - employer	\$ 85,964	\$ 215,408	\$ 231,278	\$ 177,284
Contributions - employee	87,594	90,963	110,540	92,907
Net investment income	751,554	108,507	265,605	779,244
Benefit payments, including refunds of employee contributions	(278,337)	(276,847)	(259,529)	(201,467)
Administrative expense	(4,353)	(3,728)	(3,505)	(4,098)
Other	(669)	(45)	(57)	41
Net change in plan fiduciary net position	\$ 641,753	\$ 134,258	\$ 344,332	\$ 843,911
Plan fiduciary net position - beginning	6,205,789	6,071,531	5,727,199	4,883,288
Plan fiduciary net position - ending (b)	<u>\$ 6,847,542</u>	<u>\$ 6,205,789</u>	<u>\$ 6,071,531</u>	<u>\$ 5,727,199</u>
Town's net pension liability (asset) - ending (a) - (b)	\$ (926,154)	\$ (495,941)	\$ (589,762)	\$ 940,630
Plan fiduciary net position as a percentage of the total pension liability	115.64%	108.69%	110.76%	85.89%
Covered payroll	\$ 1,819,836	\$ 1,775,664	\$ 1,763,631	\$ 1,832,052
Town's net pension liability (asset) as a percentage of covered payroll	-50.89%	-27.93%	-33.44%	51.34%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan  
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Proportion of the Net Pension Liability (Asset)	0.04537%	0.04481%	0.04374%	0.04438%
Proportionate Share of the Net Pension Liability (Asset)	\$ 5,580,000	\$ 6,280,000	\$ 5,506,000	\$ 5,363,000
Covered Payroll	3,544,861	3,267,444	3,138,519	3,121,667
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	157.41%	192.20%	175.43%	171.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%	68.28%	70.68%	70.88%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Schedule of Employer Contributions  
For the Years Ended June 30, 2015 through June 30, 2018

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2018	\$ 80,005	\$ 80,005	\$ -	\$ 1,739,681	4.60%
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%
<b>Component Unit School Board (professional)</b>					
2018	\$ 569,804	\$ 569,804	\$ -	\$ 3,491,446	16.32%
2017	559,615	559,615	-	3,544,861	15.79%
2016	501,479	501,479	-	3,267,444	15.35%
2015	509,131	509,131	-	3,138,519	16.22%

Current year contributions are from Town records and prior year contributions are from the VRS actuarial valuation performed each year.

Schedule is intended to show information for 10 years. Information prior to 2015 is not available. However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

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Changes of benefit terms - There have been no actuarially material changes to the 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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest 10 - Non-Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**Largest 10 - Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

**All Others (Non 10 Largest) - Non-Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**All Others (Non 10 Largest) - Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

**Component Unit School Board - Professional Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Town of Colonial Beach, Virginia  
Schedule of Town's Share of Net OPEB Liability  
Group Life Insurance Program  
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government:					
2017	0.00988% \$	149,000 \$	1,819,836	8.19%	48.86%
Component Unit School Board (professional):					
2017	0.01968% \$	296,000 \$	3,544,861	8.35%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Schedule of Employer Contributions  
Group Life Insurance Program  
For the Years Ended June 30, 2017 through June 30, 2018

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government:					
2018	\$ 9,067	\$ 9,067	- \$	1,739,681	0.52%
2017	9,482	9,482	-	1,819,836	0.52%
Component Unit School Board (professional):					
2018	\$ 18,797	\$ 18,797	- \$	3,491,446	0.54%
2017	18,877	18,877	-	3,544,861	0.53%

Schedule is intended to show information for 10 years. Information prior to 2017 is not available.  
However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Notes to Required Supplementary Information  
Group Life Insurance Program  
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**General State Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

**Teachers**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

**SPORS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

**VaLORS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Town of Colonial Beach, Virginia  
Notes to Required Supplementary Information  
Group Life Insurance Program  
For the Year Ended June 30, 2018

**JRS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

**Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**Largest Ten Locality Employers - Hazardous Duty Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

**Non-Largest Ten Locality Employers - Hazardous Duty Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Town of Colonial Beach, Virginia  
Schedule of Town School Board's Share of Net OPEB Liability  
Teacher Health Insurance Credit Program (HIC)  
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2017	0.04600% \$	584,000 \$	3,544,861	16.47%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Schedule of Employer Contributions  
Teacher Health Insurance Credit Program (HIC)  
For the Years Ended June 30, 2017 through June 30, 2018

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 44,160	\$ 44,160	\$ -	\$ 3,491,446	1.26%
2017	40,295	40,295	-	3,544,861	1.14%

Schedule is intended to show information for 10 years. Information prior to 2017 is not available.  
However, additional years will be included as they become available.

Town of Colonial Beach, Virginia  
Notes to Required Supplementary Information  
Teacher Health Insurance Credit Program (HIC)  
For the Year Ended June 30, 2018

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Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Town of Colonial Beach, Virginia  
VRA Debt Covenant  
For the Year Ended June 30, 2018

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	<u>Water</u>
Operating revenues:	
Charges for services	\$ 787,556
Operating expenses excluding depreciation:	
Personnel services	\$ 201,021
Fringe benefits	35,698
Contractual services	17,155
Other charges	133,669
Total operating expenses excluding depreciation	<u>387,543</u>
Operating revenue available for debt service	<u>\$ 400,013</u>
Debt service:	
Principal retirement	\$ 112,679
Interest expense	15,407
Total debt service	<u>128,086</u>
Operating revenue in excess of debt service payments	<u><u>\$ 271,927</u></u>

Schedule demonstrates the Town has satisfied the rate covenant required by Virginia Resource Authority for the 2017 Virginia Water Facilities Revolving Fund. No debt payments were made in FY18.

Town of Colonial Beach, Virginia  
Combining Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2018

	School Operating <u>Fund</u>	School Cafeteria <u>Fund</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 409,861	\$ 115,576	\$ 525,437
Receivables (net of allowance for uncollectibles):			
Accounts receivable	773	-	773
Due from other governmental units	139,404	21,601	161,005
Prepaid items	58,286	-	58,286
Total assets	<u>\$ 608,324</u>	<u>\$ 137,177</u>	<u>\$ 745,501</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 608,324	\$ 7,741	\$ 616,065
Total liabilities	<u>\$ 608,324</u>	<u>\$ 7,741</u>	<u>\$ 616,065</u>
<b>FUND BALANCES</b>			
Assigned:			
Education	\$ -	\$ 129,436	\$ 129,436
Total fund balances	<u>\$ -</u>	<u>\$ 129,436</u>	<u>\$ 129,436</u>

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balances per above	\$ 129,436
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

Capital assets, cost	\$ 14,507,770	
Accumulated depreciation	<u>(2,530,015)</u>	11,977,755

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items	\$ 803,804	
OPEB related items	<u>85,957</u>	889,761

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

Capital leases	\$ (20,380)	
Compensated absences	(212,738)	
Net pension liability	(5,580,000)	
Net OPEB liabilities	<u>(880,000)</u>	(6,693,118)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$ (643,000)	
OPEB related items	<u>(40,000)</u>	(683,000)

Net position of governmental activities		<u>\$ 5,620,834</u>
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Town of Colonial Beach, Virginia  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds - Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2018

	School Operating <u>Fund</u>	School Cafeteria <u>Fund</u>	School Capital Projects <u>Fund</u>	Total Governmental <u>Funds</u>
<b>REVENUES</b>				
Revenue from the use of money and property	\$ -	\$ -	\$ 2,180	\$ 2,180
Charges for services	45,202	43,731	-	88,933
Miscellaneous	69,446	-	-	69,446
Intergovernmental:				
Local government	1,949,580	-	936,230	2,885,810
Commonwealth	4,165,242	14,390	-	4,179,632
Federal	456,180	454,839	-	911,019
Total revenues	<u>\$ 6,685,650</u>	<u>\$ 512,960</u>	<u>\$ 938,410</u>	<u>\$ 8,137,020</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 6,665,466	\$ 444,441	\$ 631,130	\$ 7,741,037
Debt service:				
Principal retirement	19,787	-	-	19,787
Interest and other fiscal charges	397	-	-	397
Total expenditures	<u>\$ 6,685,650</u>	<u>\$ 444,441</u>	<u>\$ 631,130</u>	<u>\$ 7,761,221</u>
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 68,519	\$ 307,280	\$ 375,799
Net change in fund balances	\$ -	\$ 68,519	\$ 307,280	\$ 375,799
Fund balances - beginning, as restated	-	60,917	(307,280)	(246,363)
Fund balances - ending	<u>\$ -</u>	<u>\$ 129,436</u>	<u>\$ -</u>	<u>\$ 129,436</u>

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above \$ 375,799

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. This is the amount by which the capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 649,131	
Depreciation expense	(217,903)	431,228

The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on 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. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Principal retirement on capital leases		19,787
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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 compensated absences	\$ (4,173)	
Change in prepaid items	(118,861)	
Pension expense	93,189	
OPEB expense	8,957	(20,888)

Change in net position of governmental activities		<u>\$ 805,926</u>
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Town of Colonial Beach, Virginia  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2018

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 20,000	\$ 20,000	\$ 45,202	\$ 25,202
Miscellaneous	45,199	45,219	69,446	24,227
Intergovernmental:				
Local government	2,299,916	2,299,916	1,949,580	(350,336)
Commonwealth	4,022,810	4,042,375	4,165,242	122,867
Federal	559,113	552,888	456,180	(96,708)
Total revenues	\$ 6,947,038	\$ 6,960,398	\$ 6,685,650	\$ (274,748)
EXPENDITURES				
Education	\$ 6,926,038	\$ 6,940,214	\$ 6,665,466	\$ 274,748
Debt service:				
Principal retirement	19,787	19,787	19,787	-
Interest and other fiscal charges	1,213	397	397	-
Total expenditures	\$ 6,947,038	\$ 6,960,398	\$ 6,685,650	\$ 274,748
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning, as restated	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' 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 the Board of Supervisors  
Town of Colonial Beach  
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, and the aggregate remaining fund information of Town of Colonial Beach Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Colonial Beach, Virginia's basic financial statements and have issued our report thereon dated November 5, 2018.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Colonial Beach Virginia'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 of Colonial Beach, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Colonial Beach, Virginia'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses, 2018-001 and 2018-002.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Colonial Beach, Virginia's financial statements are free from 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs, as item 2018-003.

### Town of Colonial Beach, Virginia's Response to Findings

Town of Colonial Beach, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Colonial Beach Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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



Richmond, Virginia  
November 5, 2018

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To The Honorable Members of the Board of Supervisors  
Town of Colonial Beach  
Colonial Beach, Virginia

### Report on Compliance for Each Major Federal Program

We have audited Town of Colonial Beach, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Colonial Beach, Virginia's major federal programs for the year ended June 30, 2018. Town of Colonial Beach, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of Town of Colonial Beach, Virginia'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 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 Town of Colonial Beach, Virginia'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 Town of Colonial Beach, Virginia's compliance.

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

In our opinion, Town of Colonial Beach, Virginia 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, 2018.

## Report on Internal Control over Compliance

Management of Town of Colonial Beach, Virginia 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 Town of Colonial Beach, Virginia'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 Town of Colonial Beach, Virginia's internal control over compliance.

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

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

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

*Robinson, Farmer, Cox Associates*

Richmond, Virginia  
November 5, 2018

Town of Colonial Beach, Virginia  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Payments:			
Child and Adult Care Food Program	10.558	N/A	\$ 113,196
Pass-Through Payments:			
Child Nutrition Cluster:			
Department of Agriculture:			
Food Distribution	10.555	45707	\$ 24,114
Department of Education:			
National School Lunch Program	10.555	40623	212,576
			<u>\$ 236,690</u>
School Breakfast Program	10.553	40591	<u>\$ 95,683</u> 332,373
Pass-Through Payments:			
Department of Education:			
Fresh Fruit and Vegetable Program	10.582	40599	<u>9,270</u>
Total Department of Agriculture			<u>\$ 454,839</u>
Department of Housing and Urban Development:			
Pass Through Payments:			
Department of Housing and Community Development:			
Community Development Block Grants/Entitlement Grants	14.218	60302	<u>\$ 44,950</u>
Total Department of Housing and Urban Development			<u>\$ 44,950</u>
Environmental Protection Agency:			
Direct Payments:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	<u>\$ 2,132,714</u>
Total Environmental Protection Agency			<u>\$ 2,132,714</u>
Department of Education:			
Direct Payments:			
Education for Homeless Children and Youth	84.196	N/A	\$ 5,468
Pass-Through Payments:			
Virginia Department of Education:			
Title I Grants to Local Educational Agencies	84.010	42901	156,362
Special Education Cluster:			
Special Education - Grants to States	84.027	70110	\$ 123,170
Special Education - Preschool Grants	84.173	62521	<u>4,531</u> 127,701
Career and Technical Education - Basic Grants to States	84.048	60531	2,912
Twenty-First Century Community Learning Centers	84.287	60565	129,035
Rural Education	84.358	43481	11,255
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	61480	21,595
Student Support and Academic Enrichment Program	84.424	60281	<u>1,852</u>
Total Department of Education			<u>\$ 456,180</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,088,683</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Town of Colonial Beach, Virginia  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

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Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Colonial Beach, Virginia under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Town of Colonial Beach, Virginia, it is not intended to be and does not present the financial position, changes in net position, or cash flows of the Town of Colonial Beach, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3 - Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of commodities received or disbursed.

Note 4 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 44,950
Water Fund (loan proceeds)	2,132,714
Total primary government	<u>\$ 2,177,664</u>
Component Unit School Board:	
School Operating Fund	\$ 456,180
School Cafeteria Fund	454,839
Total Component Unit School Board	<u>\$ 911,019</u>
Total federal expenditures per basic financial statements	<u>\$ 3,088,683</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,088,683</u>

Note 5 - Subrecipients

No awards were passed through to subrecipients.

Note 6 - De Minimis Cost Rate

The Town did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 7 - Loan Balances

The Town has no loans or loan guarantees which are subject to reporting requirements for the current year.

Town of Colonial Beach, Virginia  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

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Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? ✓ yes        no

Significant deficiency(ies) identified?        yes ✓ none reported

Noncompliance material to financial statements noted?        yes ✓ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?        yes ✓ no

Significant deficiency(ies) identified?        yes ✓ none reported

Type of auditors' report issued on compliance  
for major programs: unmodified

Any findings disclosed that are required to be  
reported in accordance with 2 CFR section 200.516(a)?        yes ✓ no

Identification of major programs:

CFDA Number(s)  
10.553/10.555/10.559  
84.027/84.173  
66.468

Name of Federal Program or Cluster  
Child Nutrition Cluster  
Special Education Cluster  
Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A  
and type B programs: \$750,000

Auditee qualified as low-risk auditee?        yes ✓ no

Town of Colonial Beach, Virginia  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018 (Continued)

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**Section II-Financial Statement Findings**

**Finding 2018-001: Segregation of Duties (Material Weakness)**

*Criteria:*

The Town and School Board are responsible for establishing and maintaining effective internal controls and for fair presentation of the financial statements including the related disclosures, in conformity with the U.S. generally accepted accounting principles.

*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.

*Effect of Condition:*

As a result of the lack of segregation of duties, due to the limited number of personnel involved in accounting transactions, there is a higher risk that errors or misappropriation could occur and not be detected within a timely period.

*Cause of Condition:*

There is a limited number of personnel involved 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.

Town of Colonial Beach, Virginia  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018 (Continued)

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**Section II-Financial Statement Findings**

**Finding 2018-002: Auditor Adjustments (Material Weakness)**

*Criteria:*

Per Statement of Auditing Standards 115, identification of material adjustments to the financial statements that were not detected by the entity's internal controls indicates that a material weakness exists.

*Condition:*

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

*Effect of Condition:*

There is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented by the entity's internal controls over financial reporting.

*Cause of Condition:*

Procedures were not in place to provide the necessary internal controls over financial reporting and year-end adjusting entries were not identified prior to the auditor's arrival to conduct the audit.

*Recommendation:*

The Town and School Board 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.

**Section III-Federal Award Findings and Questioned Costs**

None

Town of Colonial Beach, Virginia  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018 (Continued)

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Section IV-Commonwealth of Virginia Findings and Questioned Costs

Finding 2018-003:

*Criteria:*

Section 22.1-81 of the *Code of Virginia* requires local school boards to report revenues, expenditures, positions, and other information annually to the State Board of Education using the Annual School Report.

*Condition:*

The School Board's Annual School Report did not include local cafeteria revenues totaling \$156,114.

*Effect of Condition:*

The Annual School Report that was submitted to the State Board of Education did not reconcile to the accounting records by a reasonable amount.

*Cause of Condition:*

Procedures were not in place to ensure that all revenues were included on the Annual School Report.

*Recommendation:*

School Board management should have procedures in place to ensure that all revenues recorded in the accounting system are included in the Annual School Report.

*Management's Response:*

The School Board office is considering corrective action for FY19.

Town of Colonial Beach, Virginia

Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2018

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Findings - Financial Statement Audit:

Finding 2012-001: Segregation of Duties (Material Weakness)

*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.

Finding 2012-002: Auditor Adjustments (Material Weakness)

*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 School Board should continue to implement steps to improve its financial reporting process.

*Current Status:*

Finding is still applicable.

Findings - Major Federal Award Programs Audit:

Finding 2017-001: Highway Planning and Construction - CFDA Number 20.205

*Condition:*

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

*Recommendation:*

The Town should follow-up with contractors to make sure they are complying with compliance requirements.

*Current Status:*

Town did not receive any more of this funding during the year ended June 30, 2018.

Town of Colonial Beach, Virginia

Summary Schedule of Prior Audit Findings (Continued)  
For the Year Ended June 30, 2018

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Findings - 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.

*Recommendation:*

The report should 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.

*Current Status:*

Corrective action was noted during the audit for the year ended June 30, 2018.

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.

*Recommendation:*

The Town should review budget to actual reports on a monthly basis and amend the budgets when necessary.

*Current Status:*

Corrective action was noted during the audit for the year ended June 30, 2018.

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

*Condition:*

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

*Recommendation:*

The Town should begin report preparation earlier and implement a review process to ensure timely submission.

*Current Status:*

Corrective action was noted during the audit for the year ended June 30, 2018.