

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**AUDITED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2022 and 2021**

**DUNHAM, AUKAMP & RHODES, PLC**  
Certified Public Accountants  
Chantilly, VA

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**CURRENT MEMBERS OF THE BOARD AS OF JUNE 30, 2022**

Mr. William Page Johnson, II  
Commissioner of the Revenue  
City of Fairfax  
Fairfax, Virginia

Ms. Marion Serfass  
Director of Finance/Treasurer  
Town of Vienna  
Vienna, Virginia

Mr. Gregory Bruch  
Director, Revenue Collection Division  
Department of Tax Administration  
County of Fairfax  
Fairfax, Virginia

Mr. Kevin Greenlief  
Assistant Director, Revenue Division  
Department of Finance  
City of Alexandria  
Alexandria, Virginia

Mr. Tom Clinton  
Commissioner of the Revenue  
City of Falls Church  
Falls Church, Virginia

Ms. Lois Jacob  
Commissioner of the Revenue  
City of Fredericksburg  
Fredericksburg, Virginia

Mr. Tim Demeria  
Commissioner of the Revenue  
City of Manassas  
Manassas, Virginia

Mr. Preston Banks  
Vice Mayor  
City of Manassas Park  
Manassas Park, Virginia

Ms. Lisa Henty  
Director  
Office of Management & Budget  
County of Fauquier  
Warrenton, Virginia

Mr. Caleb Weitz  
Assistant Director of Budget  
County of Loudoun  
Leesburg, Virginia

Ms. Michelle Attreed  
Director of Finance, CFO  
County of Prince William  
Prince William, Virginia

Ms. Bonnie Jewell  
Chief Financial Officer  
County of Spotsylvania  
Spotsylvania, Virginia

Mr. Scott Mayausky  
Commissioner of the Revenue  
County of Stafford  
Stafford, Virginia

Mr. Darrell D. Poe  
Councilmember  
Town of Clifton  
Clifton, Virginia

Mr. Brian K. Fields  
Councilmember  
Town of Dumfries  
Dumfries, Virginia

Mr. Roberto Gonzalez  
Town Treasurer  
Town of Haymarket  
Haymarket, Virginia

Mr. Robert Tang  
Director of Finance  
Town of Herndon  
Herndon, Virginia

The Honorable Roger Vance  
Mayor of Hillsboro  
Town of Hillsboro  
Hillsboro, Virginia

Ms. Ellen Windley  
Finance Operations Manager  
Town of Leesburg  
Leesburg, Virginia

Mr. Jason Cournoyer  
Town Manager  
Town of Lovettsville  
Leesburg, Virginia

Mr. Danny Davis  
Town Manager  
Town of Middleburg  
Leesburg, Virginia

Ms. Elizabeth Krens  
Treasurer, Director of Finance  
Town of Purcellville  
Purcellville, Virginia

Ms. Melissa Hynes  
Town Administrator  
Town of Round Hill  
Round Hill, Virginia

Ms. Stephanie Miller  
Director of Finance  
Town of Warrenton  
Warrenton, Virginia

**BOARD OF OFFICERS AS OF JUNE 30, 2022**

Mr. William Page Johnson, II Chairman  
Ms. Marion Serfass, Vice-Chairman  
Mr. Gregory Bruch, Secretary/Treasurer

**ADMINISTRATOR AS OF JUNE 30, 2022**

Juan Rengel

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

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**Dunham, Aukamp & Rhodes, PLC**  
*Certified Public Accountants*

4437 Brookfield Corporate Dr., Suite 205-D  
Chantilly, VA 20151

**Independent Auditor's Report**

To the Board of Commissioners  
Northern Virginia Cigarette Tax Board  
Chantilly, VA

**Opinion**

We have audited the accompanying financial statements of the Northern Virginia Cigarette Tax Board as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Northern Virginia Cigarette Tax Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position and changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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 Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Northern Virginia Cigarette Tax Board, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Change in Accounting Principle**

As described in Note 10 to the financial statements, in 2021, the Northern Virginia Cigarette Tax Board adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

**Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Northern Virginia Cigarette Tax Board's ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Northern Virginia Cigarette Tax Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Northern Virginia Cigarette Tax Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of budget versus actual administration expenses on pages 4 through 6 and 18 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern Virginia Cigarette Tax Board's basic financial statements. The schedules of cash distributions to member jurisdictions on page 17 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of cash distributions to member jurisdictions is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022, on our consideration of the Northern Virginia Cigarette Tax Board'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Virginia Cigarette Tax Board's internal control over financial reporting and compliance.



Certified Public Accountants  
Chantilly, Virginia

November 3, 2022

**NORTHERN VIRGINIA CIGARETTE TAX BOARD**  
**FAIRFAX, VIRGINIA**  
**Management's Discussion and Analysis**

Our discussion and analysis of the Northern Virginia Cigarette Tax Board's financial performance provide an overview of the Board's financial activities for the fiscal years ended June 30, 2022 and 2021. Please read it in conjunction with the accompanying financial statements that follow this section.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Board's basic financial statements. The notes to the financial statements also contain more detail on some of the important information presented in the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The funds of the Board reporting entity consist of a single fiduciary fund.

**Fiduciary Funds.** The Board is trustee, or fiduciary, for cigarette tax collected on behalf of member jurisdictions and the Board is responsible for ensuring that the assets reported in this fund are used for their intended purpose. Each month Board operating expenses are paid from Tax Revenues and the remaining taxes collected are distributed to member jurisdictions. The two statements included for the fiduciary fund are the statements of fiduciary net position and changes in fiduciary net position.

The Statements of Fiduciary Net Position presents information on all of the Board's assets and liabilities, with the difference between the two reported as net position. The Board has no net position because under the operating agreement all such amounts are payable to the member jurisdictions after funding the administrative expenses.

The Statements of Changes in Fiduciary Net Position presents information showing how the Board's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, additions and deductions are recorded in these statements for some items that will only result in cash flows in future periods.

## Financial Analysis

### Summary Statements of Fiduciary Net Position

|                              | <u>2022</u>        | <u>2021</u>        |
|------------------------------|--------------------|--------------------|
| Assets:                      |                    |                    |
| Current Assets               | \$2,495,575        | \$1,326,979        |
| Capital Assets, net          | 153,459            | 65,474             |
| Other Noncurrent Assets, net | <u>1,415,336</u>   | <u>1,508,145</u>   |
| Total Assets                 | <u>4,064,370</u>   | <u>2,900,598</u>   |
| Liabilities:                 |                    |                    |
| Current Liabilities          | \$2,537,875        | \$1,322,482        |
| Noncurrent Liabilities       | <u>1,526,495</u>   | <u>1,578,116</u>   |
| Total Liabilities            | <u>\$4,064,370</u> | <u>\$2,900,598</u> |

### Summary Statements of Changes in Fiduciary Net Position

|                                | <u>2022</u>         | <u>2021</u>         |
|--------------------------------|---------------------|---------------------|
| Additions                      | <u>\$18,227,427</u> | <u>\$11,556,746</u> |
| Deductions                     |                     |                     |
| Distributions to jurisdictions | 17,049,968          | 10,576,598          |
| Administration                 | <u>1,177,459</u>    | <u>980,148</u>      |
| Changes in Net Position        | <u>\$ -</u>         | <u>\$ -</u>         |

The increase to Additions to Jurisdictions during the years ended June 30, 2022 and 2021 is due to the expansion of five counties joining the Board on January 1, 2022.

The overall total increase in distributions is due to the additional revenues generated from the new localities. However, the existing jurisdictions saw a slight decrease from prior year due to increased expenses that were incurred before January 1, 2022, in addition to the continuing downward trend in cigarette pack sales.

The Board's expansion from 19 to 24 jurisdictions resulted in the increase of Administration costs due to higher payroll costs, additional purchase of computer equipment, the acquisition of three new vehicles and increased volume of cigarette tax stamp purchase. The increase in payroll expenses were attributed to increasing staff from five to eight and payout of accrued leave and retirement to former employees upon separation.

## Economic Factors and Future Outlook

Though the trend of fewer people smoking is expected to continue, FY2023 cigarette tax collections and distributions to jurisdictions are expected to remain in sync with budget estimates for the coming fiscal year. Although increased expenses are expected to remain within the required 6% of total revenue, the addition of five new localities reduced the expense ratio per locality.

### Capital Assets

Capital assets consist of office and computer equipment, and five vehicles used in the fiduciary activities of the Board. It also contains software development costs for a customized software system to monitor and track the collection and distribution of the cigarette tax.

### Contacting the Board's Financial Management

This financial report is designed to provide a general overview of the Board's finances and show the Board's accountability for the money it receives. If you have questions about this report or need additional information, contact the Board's Administrator at 14150 Newbrook Drive, Suite 210, Chantilly, VA 20151.

**NORTHERN VIRGINIA CIGARETTE TAX BOARD**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30,**

**ASSETS**

|                                      | <u>2022</u>                | <u>2021</u>                |
|--------------------------------------|----------------------------|----------------------------|
| <b>CURRENT ASSETS</b>                |                            |                            |
| Cash and cash equivalents            | \$ 276,877                 | \$ 356,293                 |
| Cigarette tax revenue receivable     | 2,162,708                  | 963,688                    |
| Seized cigarettes inventory          | 40,290                     | 2,544                      |
| Prepaid expense                      | 7,199                      | -                          |
| Rental deposits                      | 8,501                      | 4,454                      |
|                                      | <hr/>                      | <hr/>                      |
| <b>TOTAL CURRENT ASSETS</b>          | <u>2,495,575</u>           | <u>1,326,979</u>           |
| <b>NONCURRENT ASSETS</b>             |                            |                            |
| Capital Assets                       |                            |                            |
| Furniture and equipment              | 66,132                     | 52,760                     |
| Vehicle                              | 159,448                    | 84,616                     |
| Software development                 | 19,907                     | 19,907                     |
| Less: Accumulated depreciation       | (92,028)                   | (91,809)                   |
|                                      | <hr/>                      | <hr/>                      |
| Total Capital Assets, net            | <u>153,459</u>             | <u>65,474</u>              |
| Right to Use Lease Assets            |                            |                            |
| Right to use lease assets            | 1,600,954                  | 1,600,954                  |
| Less: Accumulated Amortization       | (185,618)                  | (92,809)                   |
|                                      | <hr/>                      | <hr/>                      |
| Total Right to Use Lease Assets, net | <u>1,415,336</u>           | <u>1,508,145</u>           |
|                                      | <hr/>                      | <hr/>                      |
| <b>TOTAL NONCURRENT ASSETS</b>       | <u>1,568,795</u>           | <u>1,573,619</u>           |
|                                      | <hr/>                      | <hr/>                      |
| <b>TOTAL ASSETS</b>                  | <u><u>\$ 4,064,370</u></u> | <u><u>\$ 2,900,598</u></u> |

**LIABILITIES**

|                                         |                            |                            |
|-----------------------------------------|----------------------------|----------------------------|
| <b>CURRENT LIABILITIES</b>              |                            |                            |
| Accounts payable and accrued expenses   | \$ 22,003                  | \$ 26,581                  |
| Distributions payable                   | 2,067,476                  | 854,830                    |
| Undistributed receipts                  | 2,934                      | 34,318                     |
| Compensated absences                    | 40,004                     | 95,312                     |
| Restitution payable                     | 48,393                     | 48,172                     |
| Reserve for seized cigarette revenues   | 272,800                    | 229,988                    |
| Reserve for software                    | 20,093                     | 13,416                     |
| Reserve for automobile replacement      | 7,551                      | 2,551                      |
| Reserve for expenses                    | 5,000                      | 5,000                      |
| Lease liability, current portion        | 51,621                     | 12,314                     |
|                                         | <hr/>                      | <hr/>                      |
| <b>TOTAL CURRENT LIABILITIES</b>        | <u>2,537,875</u>           | <u>1,322,482</u>           |
| <b>NONCURRENT LIABILITIES</b>           |                            |                            |
| Lease liability, net of current portion | 1,526,495                  | 1,578,116                  |
|                                         | <hr/>                      | <hr/>                      |
| <b>TOTAL LIABILITIES</b>                | <u><u>\$ 4,064,370</u></u> | <u><u>\$ 2,900,598</u></u> |

The accompanying notes are an integral part of these financial statements.

**NORTHERN VIRGINIA CIGARETTE TAX BOARD**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEARS ENDED JUNE 30,**

| <b>ADDITIONS</b>                        | <u>2022</u>        | <u>2021</u>        |
|-----------------------------------------|--------------------|--------------------|
| Cigarette tax collected                 |                    |                    |
| Wholesalers                             | \$ 18,130,106      | \$ 11,541,810      |
| Vendors                                 | 35                 | 86                 |
| Miscellaneous income                    | 10,119             | 6,921              |
| Sale of cigarette seizures              | 86,807             | 7,712              |
| Interest                                | 360                | 217                |
| <b>TOTAL ADDITIONS</b>                  | <u>18,227,427</u>  | <u>11,556,746</u>  |
| <b>DEDUCTIONS</b>                       |                    |                    |
| Distributions to jurisdictions          | 17,049,968         | 10,576,598         |
| Administration expenses                 |                    |                    |
| Payroll                                 | 616,334            | 533,463            |
| Retirement contribution                 | 148,976            | 149,307            |
| Lease amortization                      | 92,809             | 92,809             |
| Medical insurance                       | 62,500             | 62,944             |
| Tax stamps                              | 54,318             | 12,210             |
| Interest expense                        | 43,737             | 44,026             |
| Depreciation                            | 32,500             | 13,876             |
| Computer services                       | 30,093             | 18,573             |
| Professional services                   | 30,052             | 20,923             |
| Telephone                               | 10,880             | 8,346              |
| Social Security                         | 9,521              | 7,219              |
| Retirement plan maintenance             | 8,945              | -                  |
| Bond and insurance                      | 8,486              | 5,669              |
| Automobile expense                      | 6,312              | 1,052              |
| Office supplies                         | 4,700              | 2,920              |
| Unemployment insurance                  | 3,907              | 132                |
| Disability plan                         | 3,010              | 2,217              |
| Office equipment                        | 2,420              | -                  |
| Life insurance                          | 1,777              | 1,121              |
| Rent                                    | 1,669              | 324                |
| Postage                                 | 1,529              | 854                |
| Printing                                | 1,500              | 97                 |
| Training and development                | 830                | -                  |
| Miscellaneous                           | 261                | 600                |
| Office equipment repair                 | 220                | -                  |
| Bank fees                               | 173                | 273                |
| Vehicle repair                          | -                  | 1,193              |
| <b>TOTAL DEDUCTIONS</b>                 | <u>18,227,427</u>  | <u>11,556,746</u>  |
| <b>CHANGE IN FIDUCIARY NET POSITION</b> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

# **NORTHERN VIRGINIA CIGARETTE TAX BOARD FAIRFAX, VIRGINIA**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

The Northern Virginia Cigarette Tax Board (“The Board”) is a regional tax agency responsible for administering, collecting and enforcing the cigarette tax ordinances of nineteen jurisdictions located in Northern Virginia. The Board has been in existence since July 1, 1970 and its offices are currently located in Chantilly, Virginia.

#### Financial Statement Presentation

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies followed in the preparation of these financial statements:

#### Basis of Accounting

The Board accounts for its operations as a fiduciary fund, using the economic resources measurement focus and the accrual basis of accounting. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 31, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

#### Revenue Recognition

The Board recognizes assets from derived tax revenue transactions when the underlying exchange takes place. Revenue is recognized net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are reported as deferred revenues (liabilities) until the period of exchange.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments with an initial maturity of three months or less when purchased are considered to be cash equivalents.

#### Cigarette Tax Revenue Receivable

Cigarette tax revenue receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables related to non-exchange transactions are recognized when their eligibility requirements have been met. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2022 and 2021, and no allowance for doubtful accounts has been provided. Bad debt expense for the fiscal years ended June 30, 2022 and 2021, were \$-0- and \$-0-, respectively.

#### Seized Cigarettes Inventory

Seized cigarettes inventory is held for disposal by sale and is valued at the current average bid price, which approximates fair market value.

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Capital Assets

The Board records equipment at cost and provides for depreciation using the straight-line method over the useful life of the assets. Asset lives include: vehicles - 5 years, furniture – 7 years, office equipment – 5 years, and computer software – 3 years. Maintenance and repairs are charged to earnings. Costs for normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are expensed as incurred. The Board policy is to capitalize new purchases with a cost exceeding \$1,000.

Right to Use Assets

The Board has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

Concentration of Credit Risk

Financial instruments, which potentially expose the Board to concentrations of credit risk, consist principally of cash and cash equivalents. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited to any one institution. At times amounts may exceed federally insured limits. The financial institutions used by the Board participate in the Virginia Security of Public Deposits Act, whereby securities are pledged by the Institution to the Treasury Board of Virginia to cover all funds on deposit in excess of FDIC insurance coverage. The Board periodically assesses the financial condition of the institution and believes the risk of any loss is minimal.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Advertising costs are expensed as incurred.

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Board's cash and cash equivalents consist of the following as of June 30,:

|                                   | <u>2022</u>      | <u>2021</u>      |
|-----------------------------------|------------------|------------------|
| Demand deposits, interest bearing | \$276,777        | \$356,193        |
| Petty cash                        | <u>100</u>       | <u>100</u>       |
| Total                             | <u>\$276,877</u> | <u>\$356,293</u> |

All demand deposits are held by the Board or in the Board's name, and are completely covered by Federal depositary insurance or collateralized by the financial institution acquiring the deposit. The carrying amount of the deposits as of June 30, 2022 and 2021, were \$276,777 and \$356,193 respectively, and the bank balance as of June 30, 2022 and 2021, were \$314,758 and \$368,573, respectively. Accordingly, the deposits of the Board are considered to be insured.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2022, was as follows:

|                                    | <u>Balance<br/>July 1, 2021</u> | <u>Increases</u>     | <u>Decreases</u> | <u>Balance<br/>June 30, 2022</u> |
|------------------------------------|---------------------------------|----------------------|------------------|----------------------------------|
| Capital assets being depreciated   |                                 |                      |                  |                                  |
| Furniture and Equipment            | \$ 52,760                       | \$ 16,172            | \$ 2,800         | \$ 66,132                        |
| Software                           | 19,907                          | -                    | -                | 19,907                           |
| Vehicles                           | <u>84,616</u>                   | <u>104,313</u>       | <u>29,481</u>    | <u>159,448</u>                   |
| Total Depreciable Assets           | <u>157,283</u>                  | <u>120,485</u>       | <u>32,281</u>    | <u>245,487</u>                   |
| Less Accumulated Depreciation for: |                                 |                      |                  |                                  |
| Furniture and Equipment            | 26,474                          | 11,131               | 2,800            | 34,805                           |
| Vehicles                           | <u>65,335</u>                   | <u>21,369</u>        | <u>29,481</u>    | <u>57,223</u>                    |
| Total accumulated depreciation     | <u>91,809</u>                   | <u>32,500</u>        | <u>32,281</u>    | <u>92,028</u>                    |
| <br>Depreciable Assets, Net        | <br><u>\$ 65,474</u>            | <br><u>\$ 87,985</u> | <br><u>\$ -</u>  | <br><u>\$153,459</u>             |

Capital assets activity for the year ended June 30, 2021, was as follows:

|                                    | <u>Balance<br/>July 1, 2020</u> | <u>Increases</u>      | <u>Decreases</u> | <u>Balance<br/>June 30, 2021</u> |
|------------------------------------|---------------------------------|-----------------------|------------------|----------------------------------|
| Capital assets being depreciated   |                                 |                       |                  |                                  |
| Furniture and Equipment            | \$ 46,084                       | \$ 6,676              | \$ -             | \$ 52,760                        |
| Software                           | 19,907                          | -                     | -                | 19,907                           |
| Vehicles                           | <u>84,616</u>                   | <u>-</u>              | <u>-</u>         | <u>84,616</u>                    |
| Total Depreciable Assets           | <u>150,607</u>                  | <u>6,676</u>          | <u>-</u>         | <u>157,283</u>                   |
| Less Accumulated Depreciation for: |                                 |                       |                  |                                  |
| Furniture and Equipment            | 17,979                          | 8,495                 | -                | 26,474                           |
| Vehicles                           | <u>59,954</u>                   | <u>5,381</u>          | <u>-</u>         | <u>65,335</u>                    |
| Total accumulated depreciation     | <u>77,933</u>                   | <u>13,876</u>         | <u>-</u>         | <u>91,809</u>                    |
| <br>Depreciable Assets, Net        | <br><u>\$ 72,674</u>            | <br><u>\$ (7,200)</u> | <br><u>\$ -</u>  | <br><u>\$ 65,474</u>             |

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 4 – RIGHT TO USE ASSETS**

Right to use assets activity for the year ended June 30, 2022, was as follows:

|                                     | Balance<br>July 1, 2021 | Increases        | Decreases         | Balance<br>June 30, 2022 |
|-------------------------------------|-------------------------|------------------|-------------------|--------------------------|
| Right to use assets being amortized |                         |                  |                   |                          |
| Office Space                        | \$1,600,954             | \$ _____ -       | \$ _____ -        | \$1,600,954              |
| Total Right to Use Assets           | <u>1,600,954</u>        | <u>_____ -</u>   | <u>_____ -</u>    | <u>1,600,954</u>         |
| Less Accumulated Amortization for:  |                         |                  |                   |                          |
| Office Space                        | <u>92,809</u>           | <u>92,809</u>    | <u>_____ -</u>    | <u>185,618</u>           |
| Total accumulated depreciation      | <u>92,809</u>           | <u>92,809</u>    | <u>_____ -</u>    | <u>185,618</u>           |
| Right to Use Assets, Net            | <u>\$1,508,145</u>      | <u>\$ 92,809</u> | <u>\$ _____ -</u> | <u>\$1,415,336</u>       |

Right to use assets activity for the year ended June 30, 2021, was as follows:

|                                     | Balance<br>July 1, 2020 | Increases          | Decreases         | Balance<br>June 30, 2021 |
|-------------------------------------|-------------------------|--------------------|-------------------|--------------------------|
| Right to use assets being amortized |                         |                    |                   |                          |
| Office Space                        | \$ _____ -              | \$1,600,954        | \$ _____ -        | \$1,600,954              |
| Total Right to Use Assets           | <u>_____ -</u>          | <u>1,600,954</u>   | <u>_____ -</u>    | <u>1,600,954</u>         |
| Less Accumulated Amortization for:  |                         |                    |                   |                          |
| Office Space                        | <u>_____ -</u>          | <u>92,809</u>      | <u>_____ -</u>    | <u>92,809</u>            |
| Total accumulated depreciation      | <u>_____ -</u>          | <u>92,809</u>      | <u>_____ -</u>    | <u>92,809</u>            |
| Right to Use Assets, Net            | <u>\$ _____ -</u>       | <u>\$1,508,145</u> | <u>\$ _____ -</u> | <u>\$1,508,145</u>       |

**NOTE 5 – UNDISTRIBUTED RECEIPTS**

The undistributed receipts account serves as a holding account for taxes paid to the Board in excess of actual taxes owed by the authorized agents, or for those monies that are remitted by authorized agents but not identified as to jurisdiction of sale. Once identified as to a particular jurisdiction or applied as a credit to an authorized agent's account, the monies are placed into the applicable revenue account. The undistributed receipts account consists of the following categories at June 30,:

|               | <u>2022</u>    | <u>2021</u>     |
|---------------|----------------|-----------------|
| Wholesalers   | \$2,934        | \$28,669        |
| Manufacturers | -              | 4,012           |
| Vendors       | <u>-</u>       | <u>1,637</u>    |
| Total         | <u>\$2,934</u> | <u>\$34,318</u> |

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 6 – COMPENSATED ABSENCES**

All employees of the Board accrue both annual and sick leave each month. Annual leave is accumulated based on years of service and number of paid hours each work week. When employees leave Board employment, they are paid for any unused annual leave. There is no maximum amount of annual leave that employees can accumulate; however, only 300 hours per calendar can be carried over to the next calendar year. Any annual leave above and beyond 300 hours at the end of each calendar year shall be converted to sick leave. Full-time employees accrue sick leave at the rate of nine hours per month. There is no maximum amount of sick leave that employees can accumulate. Sick leave credits are not paid to an employee upon separation. Upon application for retirement, an employee's sick leave credits can be applied towards membership service credit at the rate of one month of credit for each 173 hours of accrued unused sick leave and prorated for any fraction of this amount. As of June 30, 2022 and 2021, the liability for compensated absences were \$40,004 and \$95,312, respectively.

**NOTE 7 – RESTITUTION PAYABLE**

In 2008, three individuals plead guilty in Fairfax County court to conspiracy to possess and distribute contraband cigarettes and were ordered to pay Fairfax County restitution totaling \$151,120. The restitution payments are made to the Board, and the Board has been asked to collect all funds before transferring the payments to Fairfax County. As of June 30, 2022 and 2021, the Board collected a total of \$48,393 and \$48,172, respectively.

**NOTE 8 – MISSIONSQUARE RETIREMENT CORPORATION 457 PLAN**

MissionSquare eligible employees of the Board may also participate in a deferred compensation plan in accordance with Internal Revenue Service Code 457. The deferred compensation is not available to employees until termination of employment, retirement, death or an unforeseen emergency. An independent administrator, ICMA Retirement Corporation, monitors contributions to the plan. The plan assets are maintained in custodial accounts for the exclusive use of the plan's participants and beneficiaries. In accordance with GASB 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, these assets and the related liability are not included in the accompanying financial statements.

**NOTE 9 – PENSION PLAN**

The Board maintains a defined contribution pension plan (effective May 1, 1983), which is named the Northern Virginia Cigarette Tax Board Pension Trust and covers all full-time employees who have attained six months of credited service. The mandatory contribution rate for the years ended June 30, 2022 and 2021, was 30.61% and 29.75%, respectively, of each eligible employee's compensation.

The participants in the plan reserve the authority to direct the investment activities of their portion of the pension trust. However, the Trustee retains the right to determine administrative feasibility and propriety of such investment activities within terms set forth in the trust agreement.

Pension expense for the years ended June 30, 2022 and 2021 were \$148,976 and \$149,307, respectively.

**NORTHERN VIRGINIA CIGARETTE TAX BOARD  
FAIRFAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
(Concluded)**

**NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE**

Effective July 1, 2021 the Board adopted new accounting guidance, GASB Statement No. 87, *Lease*. The impact of adopting the new GASB on the account balances of the statement of fiduciary net position as of June 30, 2021 was as follows. The right to use lease assets account increased by \$1,600,954, the accumulated amortization account increased by \$92,809, the deferred rent balance of \$50,318 was eliminated, the lease liability account increased by \$1,590,430 and the distributions payable account decreased by \$31,967.

The impact of adopting the new GASB on the account balances of the statement of changes in fiduciary net position for the fiscal year ended June 30, 2021 was as follows. The rent expense account decreased by \$62,724, the lease amortization expense increased by \$92,809, the interest expense balance increased by \$44,026, and the distributions to jurisdictions decreased by \$74,111.

**NOTE 11 – LONG-TERM OBLIGATIONS - LEASES**

The Board has entered into an agreement to lease office space in Chantilly, Virginia, under a 18-year lease which expires September 30, 2037. The lease agreement qualifies as other than short-term under GASB 87 and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the date of its inception.

The lease calls for an annual rent increase of 2.75% and included rental abatement of 7 and one-half months. The lease liability is measured at a discount rate of 2.75%, which is the rate in the lease agreement. As a result of the lease the Board has recorded a right to use asset with net book values of \$1,415,336 and \$1,508,145 as of June 30, 2022 and 2021, respectively. For the fiscal years ended June 30, 2022 and 2021, interest expense on the lease liability was \$43,737 and \$44,026, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of as of June 30, 2022 and 2021, respectively, are as follows:

| Years ending June 30, | <u>Principal</u>   | <u>Interest</u>  | <u>Total</u>       |
|-----------------------|--------------------|------------------|--------------------|
| 2023                  | \$ 51,621          | \$ 43,398        | \$ 95,019          |
| 2024                  | 68,129             | 41,979           | 110,108            |
| 2025                  | 73,030             | 40,105           | 113,135            |
| 2026                  | 78,150             | 38,097           | 116,247            |
| 2027                  | 83,496             | 35,948           | 119,444            |
| 2028-2032             | 506,207            | 142,125          | 648,332            |
| 2033-2037             | 679,108            | 63,408           | 742,516            |
| 2038                  | <u>38,375</u>      | <u>1,054</u>     | <u>39,429</u>      |
| Total payments        | <u>\$1,578,116</u> | <u>\$406,114</u> | <u>\$1,984,230</u> |

**NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS**

The Board has evaluated subsequent events through November 3, 2022, the date which the financial statements were available to be issued.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Commissioners  
Northern Virginia Cigarette Tax Board  
Fairfax, VA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the fiduciary activities and the aggregate remaining fund information of the Northern Virginia Cigarette Tax Board as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Northern Virginia Cigarette Tax Board's basic financial statements, and have issued our report thereon dated November 3, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Virginia Cigarette Tax Board'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 the Northern Virginia Cigarette Tax Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Virginia Cigarette Tax Board'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 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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Virginia Cigarette Tax Board'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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

Certified Public Accountants  
Chantilly, Virginia

November 3, 2022

**NORTHERN VIRGINIA CIGARETTE TAX BOARD**  
**SCHEDULES OF CASH DISTRIBUTIONS**  
**TO MEMBER JURISDICTIONS**  
**FOR THE YEARS ENDED JUNE 30,**

| Member Jurisdictions                        | <u>2022</u>          | <u>2021</u>          |
|---------------------------------------------|----------------------|----------------------|
| Fairfax County                              | \$ 4,689,566         | \$ 4,947,032         |
| City of Alexandria                          | 2,148,796            | 2,168,053            |
| County of Prince William                    | 2,102,257            | -                    |
| County of Loudoun                           | 1,616,462            | -                    |
| County of Spotsylvania                      | 720,526              | -                    |
| Town of Leesburg                            | 617,103              | 623,774              |
| County of Stafford                          | 614,136              | -                    |
| City of Manassas                            | 504,371              | 551,688              |
| City of Fairfax                             | 490,689              | 518,370              |
| City of Fredericksburg                      | 472,848              | 497,625              |
| County of Fauquier                          | 278,910              | -                    |
| Town of Vienna                              | 218,293              | 207,033              |
| City of Manassas Park                       | 214,234              | 221,598              |
| Town of Purcellville                        | 200,274              | 222,166              |
| City of Falls Church                        | 186,314              | 193,151              |
| Town of Dumfries                            | 183,693              | 178,716              |
| Town of Herndon                             | 175,432              | 178,772              |
| Town of Warrenton                           | 143,381              | 151,885              |
| Town of Haymarket                           | 139,447              | 134,996              |
| Town of Round Hill                          | 24,429               | 29,134               |
| Town of Lovettsville                        | 22,365               | 22,361               |
| Town of Middleburg                          | 17,311               | 19,959               |
| Town of Clifton                             | 1,330                | 1,456                |
| Town of Hillsboro                           | 666                  | 316                  |
|                                             | <hr/>                | <hr/>                |
| Total Distributions to Member Jurisdictions | <u>\$ 15,782,833</u> | <u>\$ 10,868,085</u> |

**NORTHERN VIRGINIA CIGARETTE TAX BOARD**  
**SCHEDULES OF BUDGET VERSUS ACTUAL ADMINISTRATION EXPENSES**  
**FOR THE YEARS ENDED JUNE 30,**

|                              | 2022                        |                     |                            | 2021                        |                    |                            |
|------------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|--------------------|----------------------------|
|                              | (Budgetary -<br>Cash Basis) |                     | Variance                   | (Budgetary -<br>Cash Basis) |                    | Variance                   |
|                              | Approved<br>Budget          | Actual<br>Expenses  | Favorable<br>(Unfavorable) | Approved<br>Budget          | Actual<br>Expenses | Favorable<br>(Unfavorable) |
| Payroll                      | \$ 723,660                  | \$ 671,642          | \$ 52,018                  | \$ 500,000                  | \$ 513,503         | \$ (13,503)                |
| Retirement contribution      | 219,953                     | 148,976             | 70,977                     | 149,000                     | 149,307            | (307)                      |
| Vehicle repair and replace   | 75,000                      | 104,313             | (29,313)                   | 3,000                       | 1,193              | 1,807                      |
| Medical insurance            | 79,503                      | 63,107              | 16,396                     | 60,000                      | 62,944             | (2,944)                    |
| Rent                         | 59,000                      | 57,720              | 1,280                      | 48,000                      | 50,351             | (2,351)                    |
| Professional services        | 33,500                      | 46,987              | (13,487)                   | 8,000                       | 13,538             | (5,538)                    |
| Tax stamps                   | 49,900                      | 43,478              | 6,422                      | 28,000                      | 12,210             | 15,790                     |
| Computer services            | 30,000                      | 30,093              | (93)                       | 20,000                      | 25,249             | (5,249)                    |
| Office equipment             | 18,900                      | 18,592              | 308                        | 6,000                       | -                  | 6,000                      |
| Telephone                    | 9,500                       | 10,880              | (1,380)                    | 7,000                       | 8,346              | (1,346)                    |
| Social Security              | 10,605                      | 9,521               | 1,084                      | 7,500                       | 7,219              | 281                        |
| Bond and insurance           | 10,300                      | 8,486               | 1,814                      | 5,900                       | 5,669              | 231                        |
| Retirement plan maintenance  | 10,000                      | 6,582               | 3,418                      | 3,000                       | -                  | 3,000                      |
| Automobile expense           | 10,000                      | 6,312               | 3,688                      | 6,000                       | 1,052              | 4,948                      |
| Office supplies              | 4,500                       | 4,939               | (439)                      | 3,000                       | 2,681              | 319                        |
| Training and development     | 4,500                       | 4,330               | 170                        | -                           | -                  | -                          |
| Miscellaneous                | 1,500                       | 3,960               | (2,460)                    | 1,000                       | 600                | 400                        |
| Unemployment insurance       | 450                         | 3,907               | (3,457)                    | 300                         | 132                | 168                        |
| Disability plan              | 3,975                       | 3,010               | 965                        | 2,200                       | 2,217              | (17)                       |
| Life insurance               | 1,713                       | 1,777               | (64)                       | 1,500                       | 1,121              | 379                        |
| Postage                      | 3,212                       | 1,529               | 1,683                      | 1,500                       | 854                | 646                        |
| Printing                     | 803                         | 1,500               | (697)                      | 500                         | 97                 | 403                        |
| Office equipment maintenance | 750                         | 220                 | 530                        | 500                         | -                  | 500                        |
| Bank fees                    | -                           | 173                 | (173)                      | -                           | 273                | (273)                      |
| Travel                       | 5,250                       | -                   | 5,250                      | -                           | -                  | -                          |
| Total Expenses               | <u>\$ 1,366,474</u>         | <u>\$ 1,252,034</u> | <u>\$ 114,440</u>          | <u>\$ 861,900</u>           | <u>\$ 858,556</u>  | <u>\$ 3,344</u>            |

Reconciliation of financial statements prepared under  
generally accepted accounting principles:

|                                                                                 |                     |                   |
|---------------------------------------------------------------------------------|---------------------|-------------------|
| Total administration expenses - budgetary basis                                 | \$ 1,252,034        | \$ 858,556        |
| (Decrease)/Increase in compensated absences                                     | (55,308)            | 19,960            |
| Depreciation expense not budgeted                                               | 32,500              | 13,876            |
| Amortization expense not budgeted                                               | 92,809              | 92,809            |
| Interest expense on lease not budgeted                                          | 43,737              | 44,026            |
| Vehicle and equipment purchases                                                 | (120,485)           | (6,676)           |
| Rent expense reported as lease liability payments                               | (56,051)            | (54,550)          |
| (Decrease)/Increase in accounts payable and accrued expenses                    | (4,578)             | 7,624             |
| (Increase)/Decrease in prepaid expense                                          | (7,199)             | 4,523             |
| Total administration expenses under generally<br>accepted accounting principles | <u>\$ 1,177,459</u> | <u>\$ 980,148</u> |