

TOWN OF COLONIAL BEACH, VIRGINIA
FINANCIAL REPORT
JUNE 30, 2015

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

TABLE OF CONTENTS

Page(s)

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor’s Report	1-3
---	------------

Basic Financial Statements

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Notes to Financial Statements	14-73
--	--------------

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 10 – Schedule of Changes in Net Pension Liability and Related Ratios	75
Exhibit 11 – Schedule of Pension Contributions	76
Exhibit 12 – Schedule of Employer’s Share of Net Pension Liability- VRS Teacher Retirement Plan	76
Exhibit 13 – Schedule of Pension Contributions - VRS Teacher Retirement Plan.....	76
Exhibit 14 – Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual- General Fund.....	77

OTHER SUPPLEMENTARY INFORMATION

Discretely Presented Component Unit:

Exhibit 15 – School Board – Combining Balance Sheet – Governmental Funds	81
Exhibit 16 – School Board - Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances –Governmental Funds	82
Exhibit 17 – School Board - Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – School Operating Fund	83

COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	85-86
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	87-89
Schedule of Expenditures of Federal Awards	90-91
Summary of State and Local Compliance Matters.....	92
Schedule of Findings and Questioned Costs	93-98
Schedule of Prior Year Findings	99

INTRODUCTORY SECTION

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

TOWN COUNCIL

Mike Ham, Mayor
Edward Blunt
Wayne DiRosario
L. “Tommy” Edwards
Wanda Goforth
Michael Looney
Burkett Lyburn

OTHER OFFICIALS

Val Foulds, Town Manager
Kathleen Flanagan, Town Clerk
Andrea G. Erard, Town Attorney
Joan Grant, Chief Financial Officer
Danny Plott, Chief of Police
Robert Murphy, Director of Public Works
Kevin Newman, Superintendent of Schools

SCHOOL BOARD

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the Town, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Notes 8 and 9 to the financial statements, in 2015 the Town adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. 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 the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

Other Information (Continued)

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 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 17, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2015

BASIC FINANCIAL STATEMENTS

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			Discretely Presented
	Governmental	Business-Type		Component Unit
	Activities	Activities	Totals	School Board
ASSETS				
Cash and cash equivalents (Note 2)	\$ 3,948,641	\$ 1,208,659	\$ 5,157,300	\$ 1,502,939
Receivables, net (Note 3)	239,948	272,668	512,616	7,124
Due from other governments (Note 3)	82,535	157,157	239,692	309,287
Due from component unit (Note 4)	352,785	-	352,785	-
Restricted cash and cash equivalents (Note 2)	55,000	416,264	471,264	-
Capital assets: (Note 5)				
Nondepreciable	1,395,942	278,239	1,674,181	339,246
Depreciable, net	8,002,187	18,144,415	26,146,602	2,215,757
Total assets	14,077,038	20,477,402	34,554,440	4,374,353
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions subsequent to measurement date (Notes 8 and 9)	162,827	52,512	215,339	509,131
LIABILITIES				
Accounts payable and other current liabilities	382,063	234,947	617,010	719,024
Accrued interest payable	27,108	28,671	55,779	-
Due to primary government (Note 4)	-	-	-	352,785
Noncurrent liabilities:				
Net pension liability (Notes 8 and 9)	706,311	234,319	940,630	5,363,000
Due within one year (Note 7)	331,000	474,455	805,455	43,717
Due in more than one year (Note 7)	2,296,623	8,174,332	10,470,955	122,280
Total liabilities	3,743,105	9,146,724	12,889,829	6,600,806
DEFERRED INFLOWS OF RESOURCES				
Unearned revenues (Note 6)	89,539	-	89,539	-
Net difference between projected and actual investment earnings on pension plan investments (Notes 8 and 9)	261,401	86,720	348,121	796,000
Changes in proportion - teacher cost sharing pool (Note 9)	-	-	-	18,000
Total deferred inflows of resources	350,940	86,720	437,660	814,000
NET POSITION				
Net investment in capital assets	6,917,633	10,127,497	17,045,130	2,519,256
Restricted per debt agreement	-	96,264	96,264	-
Unrestricted	3,228,187	1,072,709	4,300,896	(5,050,578)
Total net position	\$ 10,145,820	\$ 11,296,470	\$ 21,442,290	\$ (2,531,322)

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Totals	Discretely Presented Component Unit School Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- Type Activities		
Primary Government:								
Governmental activities:								
General government	\$ 935,749	\$ 12,562	\$ -	\$ -	\$ (923,187)		\$ (923,187)	\$ -
Public safety	1,361,959	18,058	89,822	-	(1,254,079)		(1,254,079)	-
Public works	1,850,264	78,931	649,376	-	(1,121,957)		(1,121,957)	-
Health and welfare	4,800	-	-	-	(4,800)		(4,800)	-
Parks, recreation, and cultural	10,000	-	-	-	(10,000)		(10,000)	-
Community development	287,261	180,631	52,158	-	(54,472)		(54,472)	-
Education	2,131,179	-	-	-	(2,131,179)		(2,131,179)	-
Interest and insurance costs	109,552	-	-	-	(109,552)		(109,552)	-
Total governmental activities	6,690,764	290,182	791,356	-	(5,609,226)		(5,609,226)	-
Business-type activities:								
Water	623,279	798,143	-	-		\$ 174,864	174,864	-
Sewer	2,146,816	1,956,412	-	239,618		49,214	49,214	-
Total business-type activities	2,770,095	2,754,555	-	239,618		224,078	224,078	-
Total primary government	\$ 9,460,859	\$ 3,044,737	\$ 791,356	\$ 239,618	(5,609,226)	224,078	(5,385,148)	-
Discretely Presented Component Unit:								
School Board	\$ 6,236,992	\$ 124,477	\$ 4,162,185	\$ -				(1,950,330)
General revenues:								
Taxes:								
General property taxes					3,572,618	-	3,572,618	-
Other local taxes:								
Local sales and use					197,495	-	197,495	-
Food and lodging					469,831	-	469,831	-
Consumer utility and communications sales and use					313,550	-	313,550	-
Other					352,790	-	352,790	-
Contributions from Town					-	-	-	2,131,179
Intergovernmental, non-categorical aid					240,316	-	240,316	-
Gain on sale of town property					21,620	-	21,620	-
Use of money and property					28,551	-	28,551	-
Other					2,408	-	2,408	42,000
Special item: Insurance proceeds (Note 11)					-	-	-	1,464,009
Transfers (Note 4)					6,869	(6,869)	-	-
Total general revenues and transfers					5,206,048	(6,869)	5,199,179	3,637,188
Change in net position					(403,178)	217,209	(185,969)	1,686,858
NET POSITION AT JULY 1, AS RESTATED (NOTE 16)					10,548,998	11,079,261	21,628,259	(4,218,180)
NET POSITION AT JUNE 30					\$ 10,145,820	\$ 11,296,470	\$ 21,442,290	\$ (2,531,322)

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

TOWN OF COLONIAL BEACH, VIRGINIA

BALANCE SHEET -
GOVERNMENTAL FUNDS

June 30, 2015

	General	Capital Projects	Erosion Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,439,169	\$ 1,374,404	\$ 135,068	\$ 3,948,641
Receivables, net	239,948	-	-	239,948
Due from other governments	82,535	-	-	82,535
Due from component unit	352,785	-	-	352,785
Restricted cash and cash equivalents	55,000			55,000
Total assets	<u>\$ 3,169,437</u>	<u>\$ 1,374,404</u>	<u>\$ 135,068</u>	<u>\$ 4,678,909</u>
LIABILITIES				
Accounts payable and other current liabilities	\$ 382,063	\$ -	\$ -	\$ 382,063
Total liabilities	<u>382,063</u>	<u>-</u>	<u>-</u>	<u>382,063</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable/unearned revenue (Note 6)	267,527	-	-	267,527
Total deferred inflows of resources	<u>267,527</u>	<u>-</u>	<u>-</u>	<u>267,527</u>
FUND BALANCES				
Nonspendable:				
Long-term amounts due from component unit	352,785	-	-	352,785
Restricted for:				
Capital lease	55,000	-	-	55,000
Assigned for:				
Capital projects	-	1,374,404	-	1,374,404
Erosion funds	-	-	135,068	135,068
Unassigned	2,112,062	-	-	2,112,062
Total fund balances	<u>2,519,847</u>	<u>1,374,404</u>	<u>135,068</u>	<u>4,029,319</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,169,437</u>	<u>\$ 1,374,404</u>	<u>\$ 135,068</u>	<u>\$ 4,678,909</u>

TOWN OF COLONIAL BEACH, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015**

Total Fund Balance - Governmental Funds		\$ 4,029,319
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Nondepreciable	\$ 1,395,942	
Depreciable, net	<u>8,002,187</u>	9,398,129
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		177,988
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2015 employer contributions	162,827	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	<u>(261,401)</u>	(98,574)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	\$ (2,246,652)	
Capital lease	(288,844)	
Compensated absences	(92,127)	
Net pension liability	(706,311)	
Accrued interest payable	<u>(27,108)</u>	(3,361,042)
Total Net Position - Governmental Activities		<u><u>\$ 10,145,820</u></u>

TOWN OF COLONIAL BEACH, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	General	Capital Projects	Erosion Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 3,616,297	\$ -	\$ -	\$ 3,616,297
Other local taxes	1,333,666	-	-	1,333,666
Permits, privilege fees, and regulatory licenses	202,013	-	-	202,013
Charges for services	76,411	-	-	76,411
Use of money and property	28,551	-	-	28,551
Miscellaneous	14,165	-	-	14,165
Intergovernmental	1,031,673	-	-	1,031,673
Total revenues	6,302,776	-	-	6,302,776
EXPENDITURES				
Current:				
General government	990,341	-	-	990,341
Public safety	1,414,268	-	-	1,414,268
Public works	1,500,657	-	-	1,500,657
Health and welfare	4,800	-	-	4,800
Parks, recreation, and cultural	10,000	-	-	10,000
Community development	290,954	-	-	290,954
Education	2,131,179	-	-	2,131,179
Debt service:				
Principal retirement (Note 7)	816,576	-	-	816,576
Interest and fiscal charges	66,667	-	-	66,667
Bond issuance expense	34,400	-	-	34,400
Total expenditures	7,259,842	-	-	7,259,842
Excess of expenditures over revenues	(957,066)	-	-	(957,066)
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	1,286,000	-	-	1,286,000
Refunding bonds	656,750	-	-	656,750
Lease proceeds	298,000	-	-	298,000
Sale of property	-	21,620	-	21,620
Transfers in (Note 4)	136,869	1,264,000	-	1,400,869
Transfers out (Note 4)	(1,264,000)	(130,000)	-	(1,394,000)
Total other financing sources	1,113,619	1,155,620	-	2,269,239
Net change in fund balance	156,553	1,155,620	-	1,312,173
FUND BALANCES AT JULY 1	2,363,294	218,784	135,068	2,717,146
FUND BALANCES AT JUNE 30	\$ 2,519,847	\$ 1,374,404	\$ 135,068	\$ 4,029,319

TOWN OF COLONIAL BEACH, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

Net Change in Fund Balance - Governmental Funds \$ 1,312,173

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

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

Capital outlays	\$ 402,728	
Depreciation expense	(668,608)	
		(265,880)

Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions	162,827	
Cost of benefits earned net of employee contributions	(122,194)	
		40,633

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold. (13,400)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (43,679)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.

Debt principal repayment	816,576	
Refunding bonds	(656,750)	
Lease proceeds	(298,000)	
Issuance of bonds	(1,286,000)	
		(1,424,174)

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

Change in accrued interest	\$ (8,485)	
Change in compensated absences	(366)	
		(8,851)

Change in Net Position - Governmental Activities \$ (403,178)

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2015

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 873,249	\$ 335,410	\$ 1,208,659
Receivables, net	79,334	193,334	272,668
Total current assets	952,583	528,744	1,481,327
Noncurrent assets:			
Restricted cash and cash equivalents	-	416,264	416,264
Due from other fund (Note 4)	-	120,155	120,155
Intergovernmental receivable	-	157,157	157,157
Capital assets:			
Nondepreciable	251,859	26,380	278,239
Depreciable, net	2,497,428	15,646,987	18,144,415
Total noncurrent assets	2,749,287	16,366,943	19,116,230
Total assets	3,701,870	16,895,687	20,597,557
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions made subsequent to the measurement date (Note 8)	18,803	33,709	52,512
LIABILITIES			
Current liabilities:			
Accounts payable and other current liabilities	83,111	151,836	234,947
Accrued interest payable	15,263	13,408	28,671
Due to other fund (Note 4)	120,155	-	120,155
Compensated absences (Note 7)	8,222	25,408	33,630
Current portion of long-term liabilities (Note 7)	177,769	263,056	440,825
Total current liabilities	404,520	453,708	858,228
Noncurrent liabilities:			
Net pension liability	61,311	173,008	234,319
Long-term debt (Note 7)	1,763,633	6,410,699	8,174,332
Total noncurrent liabilities	1,824,944	6,583,707	8,408,651
Total liabilities	2,229,464	7,037,415	9,266,879
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual investment earnings on pension plan investments (Note 8)	22,691	64,029	86,720
NET POSITION			
Net investment in capital assets	807,885	9,319,612	10,127,497
Restricted per debt agreement	-	96,264	96,264
Unrestricted	660,633	412,076	1,072,709
Total net position	\$ 1,468,518	\$ 9,827,952	\$ 11,296,470

TOWN OF COLONIAL BEACH, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 760,593	\$ 1,903,912	\$ 2,664,505
Connection fees	37,550	52,500	90,050
Total operating revenues	798,143	1,956,412	2,754,555
OPERATING EXPENSES			
Personnel	246,096	651,054	897,150
Operating	207,129	809,540	1,016,669
Depreciation	91,324	565,957	657,281
Total operating expenses	544,549	2,026,551	2,571,100
Operating income (loss)	253,594	(70,139)	183,455
NONOPERATING EXPENSES			
Interest expense	(78,730)	(120,265)	(198,995)
Income (loss) before contributions	174,864	(190,404)	(15,540)
CAPITAL CONTRIBUTIONS	-	239,618	239,618
TRANSFERS OUT	(6,869)	-	(6,869)
Change in net position	167,995	49,214	217,209
NET POSITION AT JULY 1, as restated (Note 16)	1,300,523	9,778,738	11,079,261
NET POSITION JUNE 30	<u>\$ 1,468,518</u>	<u>\$ 9,827,952</u>	<u>\$ 11,296,470</u>

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 799,247	\$ 1,854,848	\$ 2,654,095
Payments to suppliers	(170,111)	(759,409)	(929,520)
Payments to employees	(244,823)	(647,046)	(891,869)
Net cash provided by operating activities	384,313	448,393	832,706
NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers to other funds	(6,869)	-	(6,869)
Interfund borrowing	65,163	(65,163)	-
Net cash provided by (used in) noncapital financing activities	58,294	(65,163)	(6,869)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(193,967)	(241,967)	(435,934)
Proceeds from bond issuances	1,628,250	570,000	2,198,250
Principal paid on long-term debt	(1,239,175)	(181,310)	(1,420,485)
Interest paid on long-term debt	(87,874)	(123,928)	(211,802)
Capital grants	-	239,618	239,618
Net cash provided by capital and related financing activities	107,234	262,413	369,647
Net increase in cash and cash equivalents	549,841	645,643	1,195,484
CASH AND CASH EQUIVALENTS			
Beginning at July 1	323,408	106,031	429,439
Ending at June 30	\$ 873,249	\$ 751,674	\$ 1,624,923
RECONCILIATION TO EXHIBIT 7			
Cash and cash equivalents	\$ 873,249	\$ 335,410	\$ 1,208,659
Restricted cash and cash equivalents	-	416,264	416,264
Total	\$ 873,249	\$ 751,674	\$ 1,624,923
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 253,594	\$ (70,139)	\$ 183,455
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	91,324	565,957	657,281
Pension expense net of employer contributions	(8,196)	(3,778)	(11,974)
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables, net	1,104	(29,213)	(28,109)
Intergovernmental receivable	-	(72,351)	(72,351)
Increase (decrease) in:			
Accounts payable and other current liabilities	45,214	53,909	99,123
Compensated absences	1,273	4,008	5,281
Net cash provided by operating activities	\$ 384,313	\$ 448,393	\$ 832,706
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Capital asset purchases included in accounts payable at year end	\$ 51,819	\$ -	\$ 51,819
Capitalized interest	\$ 4,445	\$ -	\$ 4,445

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Colonial Beach, Virginia (the “Town”) was established by an act of the Virginia General Assembly in 1837 and is one of two incorporated towns in Westmoreland County, Virginia (the “County”). It is a political subdivision of the Commonwealth of Virginia, and operates under the Town Council-Manager form of government, as elected by the residents of the Town. The Town owns and operates its own water and sewer system, provides trash and garbage pickup, and police protection for its residents.

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

Discretely Presented Component Unit:

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

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

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

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Town reports the following major governmental funds:

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

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

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

- 1) Prior to June 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the functional level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each function can be revised only by Town Council. The School Board is authorized to transfer budgeted amounts within the school system's departmental categories.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- 7) Appropriations lapse on June 30 for all Town units.
- 8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30. The Town required budget amendments during the year, representing a net decrease of \$6,900 in the general fund.

At June 30, total expenditures related to parks, recreation, and cultural exceeded budgeted amounts by \$5,000.

E. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

F. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis.

G. Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

H. Restricted Assets

Certain proceeds of the Town's bonds are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

I. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings and utility plant	5-50
Infrastructure	30
Improvements other than buildings	20
Vehicles and equipment	5-20

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has four of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third deferred inflow results from participation in the Virginia Retirement System's teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, as appropriate. Finally, the fourth item represents unearned revenue related to the prepayment of taxes not due until 2016.

K. Compensated Absences

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

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

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

L. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

M. Long-term Obligations

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

N. Net Position/Fund Balance

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

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

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

N. Net Position/Fund Balance (Continued)

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

O. Restricted Amounts

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

P. Minimum Fund Balance Policy

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

Q. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There were no significant encumbrances as of June 30.

Note 2. Deposits and Investments

Deposits

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

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

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

Credit Risk:

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

Concentration of Credit Risk:

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
Demand deposits	\$ 5,079,650	\$ 1,502,939
Certificates of deposit	<u>548,914</u>	<u>-</u>
Total deposits and investments	<u><u>\$ 5,628,564</u></u>	<u><u>\$ 1,502,939</u></u>
Reconciliation to Statement of Net Position – Exhibit 1:		
Cash and cash equivalents	\$ 5,157,300	\$ 1,502,939
Cash and cash equivalents, restricted	<u>471,264</u>	<u>-</u>
Total deposits and investments	<u><u>\$ 5,628,564</u></u>	<u><u>\$ 1,502,939</u></u>

Interest Rate Risk:

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

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, the Town has no investments subject to custodial credit risk.

Restricted Amounts:

Restricted cash and cash equivalents consist of amounts held for debt retirement as required by a debt agreement and unspent proceeds from the master equipment lease entered into during 2015.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 3. Receivables and Due from Other Governments

The following amounts represent receivables at June 30:

	Governmental Type Activities	Business- Type Activities	Total	Component Unit- School Board
Accounts receivable:				
Taxes	\$ 330,668	\$ -	\$ 330,668	\$ -
Other	-	396,753	396,753	7,124
Gross receivables	330,668	396,753	727,421	7,124
Less: allowance for uncollectibles	(90,720)	(124,085)	(214,805)	-
Receivables, net	<u>\$ 239,948</u>	<u>\$ 272,668</u>	<u>\$ 512,616</u>	<u>\$ 7,124</u>
Due from other governments:				
Communications tax	\$ 33,240	\$ -	\$ 33,240	\$ -
Sales tax	37,926	-	37,926	109,339
Grant reimbursement	8,000	-	8,000	180,955
Medicaid	-	-	-	3,519
Other state funds	894	-	894	11,697
Other	-	-	-	3,777
County	2,475	157,157	159,632	-
Total due from other governments	<u>\$ 82,535</u>	<u>\$ 157,157</u>	<u>\$ 239,692</u>	<u>\$ 309,287</u>

The County owes the sewer fund \$157,157 for its required contribution to the 2008 sewer plant upgrade.

Note 4. Interfund Receivables, Payables, and Transfers

The Component Unit School Board has an obligation of \$341,659 to the general fund resulting from deficits in prior years. Currently there are no plans to liquidate this obligation. As a result, it is reflected as nonspendable fund balance in the general fund. In addition, the Component Unit School Board also has an obligation for \$11,126 for overdrawn cash.

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
General	Capital Improvement	\$ 1,264,000
Capital Improvement	General	130,000
General	Water	6,869

The transfers from the general fund to the capital improvement fund were to move debt proceeds designated for capital improvements. The transfers from the capital improvement fund to the general fund were to assist with improvements to Town Hall. The transfer from the water fund to the general fund was to allocate debt issuance costs between funds.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. Capital Assets

Primary Government

Capital asset activity for the year is as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital asset, not depreciated:				
Land	\$ 1,395,942	\$ -	\$ -	\$ 1,395,942
Total capital assets not depreciated	<u>1,395,942</u>	<u>-</u>	<u>-</u>	<u>1,395,942</u>
Capital assets, depreciated:				
Buildings and improvements	798,870	-	-	798,870
Infrastructure	8,710,694	-	-	8,710,694
Equipment	590,220	135,859	-	726,079
Vehicles	906,552	266,869	(67,000)	1,106,421
Total capital assets	<u>11,006,336</u>	<u>402,728</u>	<u>(67,000)</u>	<u>11,342,064</u>
Less accumulated depreciation:				
Buildings and improvements	(294,036)	(16,683)	-	(310,719)
Infrastructure	(1,118,876)	(580,713)	-	(1,699,589)
Equipment	(499,124)	(31,256)	-	(530,380)
Vehicles	(812,833)	(39,956)	53,600	(799,189)
Total accumulated depreciation	<u>(2,724,869)</u>	<u>(668,608)</u>	<u>53,600</u>	<u>(3,339,877)</u>
Total capital assets, depreciated, net	<u>8,281,467</u>	<u>(265,880)</u>	<u>(13,400)</u>	<u>8,002,187</u>
Governmental activities capital assets, net	<u>\$ 9,677,409</u>	<u>\$ (265,880)</u>	<u>\$ (13,400)</u>	<u>\$ 9,398,129</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. Capital Assets (Continued)

Primary Government (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital asset, not depreciated:				
Land	\$ 29,280	\$ -	\$ -	\$ 29,280
Construction in progress	55,419	193,540	-	248,959
Total capital assets not depreciated	84,699	193,540	-	278,239
Capital assets, depreciated:				
Utility plant	27,647,131	-	-	27,647,131
Equipment	333,028	-	-	333,028
Vehicles	419,673	32,599	-	452,272
Total capital assets depreciated	28,399,832	32,599	-	28,432,431
Less accumulated depreciation:				
Buildings and improvements	(9,222,860)	(601,130)	-	(9,823,990)
Equipment	(201,144)	(17,217)	-	(218,361)
Vehicles	(206,731)	(38,934)	-	(245,665)
Total accumulated depreciation	(9,630,735)	(657,281)	-	(10,288,016)
Total capital assets depreciated, net	18,769,097	(624,682)	-	18,144,415
Business-type activities capital assets, net	<u>\$ 18,853,796</u>	<u>\$ (431,142)</u>	<u>\$ -</u>	<u>\$ 18,422,654</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 21,290
Public safety	13,926
Public works	632,092
Community development	1,300
	<u>\$ 668,608</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. Capital Assets (Continued)

Primary Government (Continued)

Business-type activities:

Water	\$ 91,324
Sewer	<u>565,957</u>
	<u>\$ 657,281</u>

Component Unit – School Board

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital asset, not depreciated:				
Land	\$ 172,208	\$ -	\$ -	\$ 172,208
Construction in progress, as restated	<u>71,495</u>	<u>167,038</u>	<u>71,495</u>	<u>167,038</u>
Total capital assets not depreciated	<u>243,703</u>	<u>167,038</u>	<u>71,495</u>	<u>339,246</u>
Capital assets, depreciated:				
Buildings and improvements	2,613,370	826,072	-	3,439,442
Equipment	28,778	-	-	28,778
Vehicles	<u>651,232</u>	<u>11,699</u>	<u>20,625</u>	<u>642,306</u>
Total capital assets, depreciated	<u>3,293,380</u>	<u>837,771</u>	<u>20,625</u>	<u>4,110,526</u>
Less accumulated depreciation:				
Buildings and improvements	(1,373,318)	(95,861)	-	(1,469,179)
Equipment	(7,232)	(3,616)	-	(10,848)
Vehicles	<u>(379,876)</u>	<u>(53,298)</u>	<u>18,432</u>	<u>(414,742)</u>
Total accumulated depreciation	<u>(1,760,426)</u>	<u>(152,775)</u>	<u>18,432</u>	<u>(1,894,769)</u>
Total capital assets, depreciated, net	<u>1,532,954</u>	<u>684,996</u>	<u>2,193</u>	<u>2,215,757</u>
School board capital assets, net – as restated (Note 16)	<u>\$ 1,776,657</u>	<u>\$ 852,034</u>	<u>\$ 73,688</u>	<u>\$ 2,555,003</u>

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 6. Unavailable/Unearned Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 142,803	\$ -	\$ 142,803
Sales and communications taxes	35,185	-	35,185
Property taxes paid in advance	<u>-</u>	<u>89,539</u>	<u>89,539</u>
Totals	<u>\$ 177,988</u>	<u>\$ 89,539</u>	<u>\$ 267,527</u>

Unavailable revenue for the School Board consists of sales tax revenue of \$47,482.

Note 7. Long-Term Debt

Primary Government

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 1,111,322	\$ 1,942,750	\$ 807,420	\$ 2,246,652	\$ 215,929
Capital lease	-	298,000	9,156	288,844	27,930
Compensated absences	<u>91,761</u>	<u>87,161</u>	<u>86,795</u>	<u>92,127</u>	<u>87,141</u>
Governmental activities long-term liabilities	<u>\$ 1,203,083</u>	<u>\$ 2,327,911</u>	<u>\$ 903,371</u>	<u>\$ 2,627,623</u>	<u>\$ 331,000</u>
Business-type Activities:					
General obligation bonds	\$ 6,598,961	\$ 1,778,250	\$ 238,710	\$ 8,138,501	\$ 332,955
Revenue bonds	1,238,431	-	1,169,131	69,300	69,300
Capital lease	-	420,000	12,644	407,356	38,570
Compensated absences	<u>28,349</u>	<u>37,757</u>	<u>32,476</u>	<u>33,630</u>	<u>33,630</u>
Business-type activities long-term liabilities	<u>\$ 7,865,741</u>	<u>\$ 2,236,007</u>	<u>\$ 1,452,961</u>	<u>\$ 8,648,787</u>	<u>\$ 474,455</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 7. Long-Term Debt (continued)

Primary Government (Continued)

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

Fiscal Year	Governmental Activities		Business Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 243,859	\$ 89,531	\$ 440,826	\$ 200,094	\$ 684,685	\$ 289,625
2017	243,978	62,670	433,357	173,068	677,335	235,738
2018	144,996	56,885	379,077	164,837	524,073	221,722
2019	131,334	53,077	384,523	157,491	515,857	210,568
2020	133,986	49,435	389,860	150,053	523,846	199,488
2021-2025	638,383	193,018	1,921,430	643,169	2,559,813	836,187
2026-2030	459,620	113,797	1,479,255	467,633	1,938,875	581,430
2031-2035	512,810	42,474	1,072,204	321,121	1,585,014	363,595
2036-2040	26,530	319	658,317	185,893	684,847	186,212
2041-2045	-	-	489,492	126,226	489,492	126,226
2046-2050	-	-	526,394	75,051	526,394	75,051
2051-2055	-	-	378,542	23,306	378,542	23,306
2056-2060	-	-	61,880	2,222	61,880	2,222
	<u>\$ 2,535,496</u>	<u>\$ 661,206</u>	<u>\$ 8,615,157</u>	<u>\$ 2,690,164</u>	<u>\$ 11,150,653</u>	<u>\$ 3,351,370</u>

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Public Improvement and Refunding Bond	3.46%	2004	2017	\$ 1,815,000	\$ 263,202	\$ 137,040
General Obligation Public Improvement and Revenue Bond	4.67	2005	2035	2,686,000	40,700	69,300
RUS Sewer Loan	4.50	1999	2039	1,161,000	-	898,779
General Obligation Public Improvement Bonds	0.0	2008	2029	2,672,000	-	1,671,156
General Obligation Public Improvement Bonds	2.50	2010	2050	1,088,000	-	980,409
USDA Rural Development Note Payable	4.25	2011	2026	265,428	-	213,626
General Obligation Sewer Bonds	1.875	2013	2053	2,460,000	-	2,459,242
General Obligation Public Improvement Bonds	3.094	2014	2035	1,946,000	1,286,000	660,000
General Obligation Public Improvement and Refunding Bond	2.65	2015	2035	1,775,000	656,750	1,118,250
Master Equipment Lease	2.31	2015	2024	718,000	288,844	407,355
					<u>\$ 2,535,496</u>	<u>\$ 8,615,157</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 7. Long-Term Debt (Continued)

Primary Government (Continued)

Current Refunding

On May 22, 2015, the Town issued \$1,775,000 in general obligation refunding bonds with an interest rate of 2.65%. The Town issued the bonds to currently refund \$1,755,000 of the outstanding series 2005 general obligation bonds with interest rates ranging from 4.00% to 4.50%. The proceeds from the 2015 issuance along with \$36,996.87 of other Town funds were used to refund the outstanding balance on the 2005 bonds, accrued interest, and costs of issuance of approximately \$20,000.

The current refunding reduced total debt service payments over the next 20 years by \$267,991. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$198,013.

School Board

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Capital lease	\$ 52,608	\$ -	\$ 16,861	\$ 35,747	\$ 17,527
Compensated absences	106,344	37,754	19,848	124,250	23,190
Other post-employment benefits	8,112	-	2,112	6,000	3,000
Governmental Activities long-term liabilities	<u>\$ 167,064</u>	<u>\$ 37,754</u>	<u>\$ 38,821</u>	<u>\$ 165,997</u>	<u>\$ 43,717</u>

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

Fiscal Year	Principal	Interest
2016	\$ 17,527	\$ 1,412
2017	18,220	719
	<u>\$ 35,747</u>	<u>\$ 2,131</u>

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

Note 8. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Colonial Beach (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is 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 are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a 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.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan

Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan 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
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Members 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. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees 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.
--	---	--

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</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. <u>Defined Contributions Component:</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. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.
---	--	---

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

		Vesting (Continued) <u>Defined Contributions Component: (Continued)</u> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <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.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
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%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. 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.	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. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%. <u>Eligibility:</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.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%. <u>Eligibility:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<u>Eligibility:</u> (Continued) 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. <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued) <u>Exceptions to COLA Effective Dates:</u> (Continued) • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	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.	Same as Plan 1.	<u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>36</u>
Inactive members:	
Vested	11
Non-vested	39
Active elsewhere in VRS	<u>28</u>
Total Inactive members	78
Active members	<u>52</u>
Total covered employees	<u><u>166</u></u>

Contributions

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Contributions (Continued)

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 12.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$215,339 and \$177,284 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

Largest 10 – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<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>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		<u>5.83 %</u>
	Inflation		<u>2.50 %</u>
	* Expected arithmetic nominal return		<u>8.33 %</u>

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit 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, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2013	\$ 6,186,591	\$ 4,883,288	\$ 1,303,303
Changes for the year:			
Service cost	256,695	-	256,695
Interest	426,010	-	426,010
Differences between expected and actual experience	-	-	-
Contributions – employer	-	177,284	(177,284)
Contributions – employee	-	92,907	(92,907)
Net investment income	-	779,244	(779,244)
Benefit payments, including refunds of employee contributions	(201,467)	(201,467)	-
Administrative expenses	-	(4,098)	4,098
Other changes	-	41	(41)
Net changes	481,238	843,911	(362,673)
Balances at June 30, 2014	\$ 6,667,829	\$ 5,727,199	\$ 940,630

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's 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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability	\$ 1,713,916	\$ 940,630	\$ 293,896

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

For the year ended June 30, 2015, the political subdivision recognized pension expense of \$162,732. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	348,121
Employer contributions subsequent to the measurement date	<u>215,339</u>	<u>-</u>
Total	<u>\$ 215,339</u>	<u>\$ 348,121</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 8. Defined Benefit Pension Plan (Continued)

The Town of Colonial Beach reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2016	\$ (87,030)
2017	(87,030)
2018	(87,030)
2019	(87,031)

Payables to the Pension Plan

At June 30, 2015, approximately \$24,963 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

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

General Information about the Teacher Cost Sharing Pool

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 plan is 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 are 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.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a 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 BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

		About the Hybrid Retirement Plan (Continued) • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members 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. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • School division employees. • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</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. <u>Defined Contributions Component:</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. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.
---	--	---

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

		Vesting (Continued) <u>Defined Contributions Component: (Continued)</u> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <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.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.	Service Retirement Multiplier Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.	Service Retirement Multiplier <u>Defined Benefit Component:</u> The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. <u>Defined Contribution Component:</u> Not applicable.
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement
The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.	The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.	<u>Defined Benefit Component:</u> Same as Plan 2.
<u>Eligibility:</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. 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.	<u>Eligibility:</u> Same as Plan 1.	<u>Defined Contribution Component:</u> Not applicable.
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Eligibility:</u> Same as Plan 1 and Plan 2.
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continue) <u>Exceptions to COLA Effective Dates: (Continued)</u> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Not applicable.	Disability Coverage Not applicable.	Disability Coverage Employees of political subdivisions and school divisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.

(Continued)

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

		Disability Coverage (Continued) 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: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2015. Contributions to the pension plan from the school division were \$509,131 and \$378,393 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the school division reported a liability of \$5,363,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 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, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.044% as compared to 0.045% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of \$420,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

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

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	796,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	18,000
Employer contributions subsequent to the measurement date	<u>509,131</u>	<u>-</u>
Total	<u><u>\$ 509,131</u></u>	<u><u>\$ 814,000</u></u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

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

The School Board reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (203,000)
2017	(203,000)
2018	(203,000)
2019	(203,000)
2020	(2,000)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.95%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Actuarial Assumptions (Continued)

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (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>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
	Inflation		2.50 %
	* Expected arithmetic nominal return		8.33 %

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

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (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, 2018, 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, 2018 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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School division's proportionate share of the VRS teacher employee retirement plan net pension liability	\$ 7,875,000	\$ 5,363,000	\$ 3,295,000

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

General Information about the Teacher Cost Sharing Pool (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 10. Property Taxes

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

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

The tax rate was \$0.58 per \$100 of assessed value during the current year.

Personal property tax assessments are based upon a percentage of fair market value on January 1 of each year. Motor vehicles are assessed at 50% of fair market value and the tax may be prorated for the length of time the vehicle has status in the Town. Personal property taxes do not create a lien on property. The tax rate was \$4.00 per \$100 of assessed value during the current year.

Note 11. Risk Management

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

During fiscal year 2014, there was a fire at the old high school building that was no longer in use by the Schools, but which they still owned. A second building that was in use was also damaged by the fire. Both buildings were fully depreciated at the time of the fire and therefore, there was no accounting loss. The Schools received \$100,000 from the insurance company during fiscal year 2014 and received the remainder of the negotiated settlement of \$1,464,009 in fiscal year 2015.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 12. Grant Programs

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

Note 13. Commitments and Contingencies

Contingent Liabilities:

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

State Water Control Board Enforcement Action:

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

Note 14. School Other Post-Employment Benefits Plan

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

Note 15. Subsequent Events

In September 2015, the Town approved the issuance of 2015 General Obligation Bonds not to exceed \$9,668,131, to finance the construction of a new school building.

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 16. Adoption of New Standard and Prior Period Restated

In the current year the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to beginning net position resulting from adoption of GASB Statement No. 68 and other prior period adjustments:

The following is a summary of the restatements to fund balance/net position:

	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Discretely Component- Unit School Board</u>
Bet position, June 30, 2014, as previously stated	\$ 11,394,516	\$ 1,373,918	\$ 9,985,844	\$ 1,467,325
To implement GASB No. 68	(845,518)	(73,395)	(207,106)	(5,757,000)
To record additional capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,495</u>
Net position, June 30, 2014, as restated	<u>\$ 10,548,998</u>	<u>\$ 1,300,523</u>	<u>\$ 9,778,738</u>	<u>\$ (4,218,180)</u>

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 17. New Accounting Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

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

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF COLONIAL BEACH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Year Ended June 30, 2015

Total Pension Liability

Service cost	\$ 256,695
Interest on total pension liability	426,010
Benefit payments, including refunds of employee contributions	(201,467)
Net change in total pension liability	481,238
Total pension liability (beginning)	<u>6,186,591</u>
Total pension liability (ending)	<u><u>\$ 6,667,829</u></u>

Plan Fiduciary Net Position

Contributions - employer	\$ 177,284
Contributions - employee	92,907
Net investment income	779,244
Benefit payments, including refunds of employee contributions	(201,467)
Administrative expenses	(4,098)
Other	41
Net change in plan fiduciary net position	<u>843,911</u>
Plan fiduciary net position - beginning	<u>4,883,288</u>
Plan fiduciary net position - ending	<u><u>\$ 5,727,199</u></u>

Net pension liability (asset) - ending	<u><u>940,630</u></u>
---	-----------------------

Plan fiduciary net position as a percentage of total pension liability	<u><u>86%</u></u>
--	-------------------

Covered employee payroll	<u><u>\$ 1,763,631</u></u>
--------------------------	----------------------------

Net pension liability (asset) as a percentage of covered employee payroll	<u><u>53%</u></u>
---	-------------------

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

TOWN OF COLONIAL BEACH, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2015	\$ 215,339	\$ 215,339	\$ -	\$ 1,763,631	12.21%

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

EXHIBIT 12

Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.044%	\$ 5,363,000	\$ 3,210,293	167.06%	51.64%

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

EXHIBIT 13

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 509,131	\$ 509,131	\$ -	\$ 3,210,593	15.86%

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

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from local sources:				
General property taxes:				
Real property	\$ 2,925,171	\$ 2,926,171	\$ 2,927,074	\$ 903
Personal property	500,000	507,000	515,205	8,205
Delinquent	117,100	120,100	117,565	(2,535)
Penalties and interest	50,000	50,000	56,453	6,453
Total general property taxes	3,592,271	3,603,271	3,616,297	13,026
Other local taxes:				
Communication sales and use	202,700	202,700	213,237	10,537
Food and lodging	385,000	408,000	460,211	52,211
Bank stock	40,000	40,000	55,840	15,840
Business license taxes	135,000	147,000	135,270	(11,730)
Local sales and use taxes	180,000	180,000	197,495	17,495
Consumer utility taxes	100,000	100,000	109,933	9,933
Motor vehicle license	85,000	85,000	75,798	(9,202)
Cigarette tax	80,000	80,000	85,882	5,882
Total other local taxes	1,207,700	1,242,700	1,333,666	90,966
Permits, fees, and licenses	139,000	206,981	202,013	(4,968)
Charges for services	38,500	53,500	76,411	22,911
Use of money and property:				
Interest	9,035	9,035	13,182	4,147
Rental of property	19,510	19,510	15,369	(4,141)
Total use of money and property	28,545	28,545	28,551	6
Miscellaneous	10,635	10,635	14,165	3,530
Intergovernmental	1,414,155	1,419,155	1,031,673	(387,482)
Total revenue	6,430,806	6,564,787	6,302,776	(262,011)
EXPENDITURES				
General government	1,009,260	1,166,260	990,341	175,919
Public safety	1,388,374	1,436,795	1,414,268	22,527
Public works	1,350,964	1,670,510	1,500,657	169,853
Health and welfare	4,800	4,800	4,800	-
Parks, recreation, and cultural	5,000	5,000	10,000	(5,000)
Community development	726,148	731,148	290,954	440,194
Education	2,103,198	2,131,179	2,131,179	-
Debt service:				
Principal retirement	151,202	160,358	816,576	(656,218)
Interest and fiscal charges	37,581	54,458	66,667	(12,209)
Bond issuance expense	-	-	34,400	(34,400)
Total expenditures	6,776,527	7,360,508	7,259,842	100,666
Excess of expenditures over revenues	(345,721)	(795,721)	(957,066)	(161,345)
OTHER FINANCING SOURCES				
Issuance of general obligation bonds	-	1,289,250	1,286,000	(3,250)
Refunding bonds	-	656,750	656,750	-
Lease proceeds	-	298,000	298,000	-
Transfers in	345,721	1,935,046	136,869	(1,798,177)
Transfers out	-	(3,383,325)	(1,264,000)	2,119,325
Total other financing sources	345,721	795,721	1,113,619	317,898
Net change in fund balance	\$ -	\$ -	\$ 156,553	\$ 156,553

TOWN OF COLONIAL BEACH, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2015

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

OTHER SUPPLEMENTARY INFORMATION

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

TOWN OF COLONIAL BEACH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	School Operating	School Cafeteria	School Capital Projects	Total Governmental
ASSETS				
Cash and cash equivalents	\$ 1,468,250	\$ 681	\$ 34,008	\$ 1,502,939
Accounts receivable	-	7,124	-	7,124
Due from other governments	309,287	-	-	309,287
Total assets	<u>\$ 1,777,537</u>	<u>\$ 7,805</u>	<u>\$ 34,008</u>	<u>\$ 1,819,350</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 705,196	\$ 13,828	\$ -	\$ 719,024
Due to primary government	23,855	11,126	317,804	352,785
Total liabilities	<u>729,051</u>	<u>24,954</u>	<u>317,804</u>	<u>1,071,809</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	59,180	-	-	59,180
Total deferred inflows of resources	<u>59,180</u>	<u>-</u>	<u>-</u>	<u>59,180</u>
FUND BALANCES (DEFICITS)				
Assigned	989,306	-	-	989,306
Unassigned	-	(17,149)	(283,796)	(300,945)
Total fund balances (deficits)	<u>989,306</u>	<u>(17,149)</u>	<u>(283,796)</u>	<u>688,361</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 1,777,537</u>	<u>\$ 7,805</u>	<u>\$ 34,008</u>	<u>\$ 1,819,350</u>
Total fund balances				\$ 688,361

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

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

Nondepreciable	\$ 339,246	
Depreciable, net	<u>2,215,757</u>	2,555,003

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

59,180

Deferred outflows and inflows of resources related to pensions are applicable to future
periods and, therefore, are not reported in the funds.

Deferred outflows of resources for 2015 employer contributions	509,131	
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(796,000)	
Changes in proportion - teacher cost sharing pool	<u>(18,000)</u>	(304,869)

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

Capital lease	\$ (35,747)	
Compensated absences	(124,250)	
Net pension liability	(5,363,000)	
Net OPEB obligation	<u>(6,000)</u>	(5,528,997)

Net position of governmental activities \$ (2,531,322)

TOWN OF COLONIAL BEACH, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	School Operating	School Cafeteria	School Capital Projects	Total Governmental
REVENUES				
Charges for services	\$ 50,692	\$ 73,785	\$ -	\$ 124,477
Miscellaneous	42,000	-	-	42,000
Payments from primary government	2,131,179	-	-	2,131,179
Intergovernmental	3,962,324	184,397	-	4,146,721
Total revenue	6,186,195	258,182	-	6,444,377
EXPENDITURES				
Education	6,740,532	243,279	-	6,983,811
Debt service:				
Principal retirement	16,861	-	-	16,861
Interest and fiscal charges	2,078	-	-	2,078
Total expenditures	6,759,471	243,279	-	7,002,750
Excess (deficiency) of revenues over expenditures	(573,276)	14,903	-	(558,373)
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	1,464,009	-	-	1,464,009
Total other financing sources	1,464,009	-	-	1,464,009
Net change in fund balances	890,733	14,903	-	905,636
FUND BALANCES (DEFICITS), JULY 1	98,573	(32,052)	(283,796)	(217,275)
FUND BALANCES (DEFICITS), JUNE 30	\$ 989,306	\$ (17,149)	\$ (283,796)	\$ 688,361
Net change in fund balances				\$ 905,636
Reconciliation of amounts reported for governmental activities in the Statement of Activities:				
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Capital outlays			\$ 933,314	
Depreciation expense			(152,775)	
				780,539
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.				
Employer pension contributions			509,131	
Cost of benefits earned net of employee contributions			(420,000)	
				89,131
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.				
				15,464
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, there is no effect on net position.				
				16,861
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.				
Change in prepaids			\$ (102,786)	
Change in compensated absences			(17,906)	
Changed in net OPEB obligation			2,112	
Loss on disposition of capital assets			(2,193)	
				(120,773)
Change in net position of governmental activities				\$ 1,686,858

TOWN OF COLONIAL BEACH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL OPERATING FUND
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Charges for services	\$ 25,000	\$ 25,000	\$ 50,692	\$ 25,692
Miscellaneous	66,482	66,482	42,000	(24,482)
Payments from primary government	2,103,198	2,131,179	2,131,179	-
Intergovernmental	4,127,143	4,171,328	3,962,324	(209,004)
Total revenues	6,321,823	6,393,989	6,186,195	(207,794)
EXPENDITURES				
Education	6,303,572	7,834,314	6,740,532	1,093,782
Debt service:				
Principal retirement	19,000	19,000	16,861	2,139
Interest and fiscal charges	-	-	2,078	(2,078)
Total expenditures	6,322,572	7,853,314	6,759,471	1,093,843
Excess (deficiency) of revenues over expenditures	(749)	(1,459,325)	(573,276)	886,049
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	1,459,325	1,464,009	4,684
Total other financing sources	-	1,459,325	1,464,009	4,684
Net change in fund balance	\$ (749)	\$ -	\$ 890,733	\$ 890,733

COMPLIANCE SECTION



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Colonial Beach, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 17, 2015.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We consider the deficiencies described in the accompanying schedule of findings and question costs as items 12-001 and 12-002 to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are identified in the schedule of findings and questioned costs as Items 2015-005 through 2015-008.**

Town of Colonial Beach's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Colonial Beach, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2015. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding CFDA Numbers 10.553 and 10.555 Child Nutrition Cluster as described in finding numbers 2015-002, 2015-003, and 2015-004. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the year ended June 30, 2015.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2015.

Other Matters

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

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.**

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2015

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Granting Agency/Recipient State Agency	Award Date	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures in Clusters	Federal Expenditures
U.S. Department of Agriculture					
Direct payments:					
Water and Waste Program Cluster					
Water and Waste Disposal Systems for Rural Communities	01/23/13	10.760	N/A		\$ 239,618
Commonwealth of Virginia Department of Agriculture and Consumer Services					
Child Nutrition Cluster					
School Breakfast	09/01/14	10.553	40591	\$ 53,363	
National School Lunch Program	09/01/14	10.555	40623 & 40591	123,755	
National School Lunch Program - Commodities	09/01/14	10.555	N/A	10,754	187,872
Total U.S. Department of Agriculture					427,490
U.S. Department of Transportation					
Pass-through payments:					
Virginia Department of Transportation					
Highway Planning and Construction	05/01/12	20.205	60302		18,408
Total U.S. Department of Housing and Urban Development					18,408
U.S. Department of Housing and Urban Development					
Direct payments:					
Community Development Block Grants/Entitlement Grants	03/15/15	14.218	n/a		20,750
Total U.S. Department of Housing and Urban Development					20,750
U.S. Department of Education					
Pass-through payments:					
Commonwealth of Virginia Department of Education:					
Title I - Grants to Local Educational Agencies	07/01/14	84.010	42901		300,497
Special Education - Grants to States	07/01/14	84.027	70110		159,543
Career and Technical Education - Basic Grants to States	07/01/14	84.048	60531		906
Rural Education	07/01/14	84.358	43481		1,728
Title III, Part A	07/01/14	84.365	60509		290
Improving Teacher Quality State Grants	07/01/14	84.367	61480		30,818
Total U.S. Department of Education					493,782
Total Expenditures of Federal Awards					\$ 960,430

TOWN OF COLONIAL BEACH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

I. Basis of Presentation

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

The information presented in this Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Town's CAFR.

II. Non-Cash Assistance

The Town participated in the National School Lunch Program, CFDA Number 10.555, which provides non-cash benefits. The accompanying Schedule of Expenditure of Federal Awards includes commodity distributions of \$10,754 from the National School Lunch Program.

TOWN OF COLONIAL BEACH, VIRGINIA
SUMMARY OF STATE AND LOCAL COMPLIANCE MATTERS
June 30, 2015

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

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Comprehensive Services Act

Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Education

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

TOWN OF COLONIAL BEACH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Two material weaknesses** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **One material weakness** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses a **modified opinion** on the Child Nutrition Cluster and an **unmodified opinion** on all other programs.
6. The audit disclosed **four audit findings** relating to the major programs.
7. The major programs of the Town are:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster Title I	10.553, 10.555 84.010

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The Town of Colonial Beach was **not** determined to be a low-risk auditee.

TOWN OF COLONIAL BEACH, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-001: Segregation of Duties (Material Weakness) (Town)

Condition:

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

Recommendation:

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

Management's Response:

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

12-002: Auditor Adjustments (Material Weakness) (Town and Schools)

Condition:

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

Recommendation:

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

Management's Response:

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

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

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

2015-001: Child Nutrition Cluster Program – CFDA 10.553, 10.555 (Material Weakness)

Condition Effect:

Overall, the Schools did not have a knowledgeable individual responsible for oversight of the program resulting in several federal compliance findings.

Recommendation:

Training should be provided to those individuals overseeing the program to ensure the Schools are meeting all program requirements.

We recommend additional oversight over the Child Nutrition Cluster awards to ensure proper compliance.

Management's Response and Corrective Action:

School management will work to address this issue and work with the auditors to develop a permanent solution. The Schools also switched to a school wide program for the 2015-2016 school year.

2015-002: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555

Condition:

The verification of eligibility for school meals was not filed until April 24, 2015.

Criteria:

The annual verification report is to be completed and filed by December 15.

Cause:

There was a lack of oversight of the program.

Recommendation:

Steps should be implemented to ensure that the annual report is filed timely.

Management's Response and Planned Corrective Action:

School management will work to address this issue and work with the auditors to develop a permanent solution. The Schools also switched to a school wide program for the 2015-2016 school year.

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

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

2015-003: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555

Condition:

The Schools were charging an amount above the federally mandated cap rate for reduced fee breakfast and lunches.

Criteria:

The School should not charge more than \$0.40 and \$0.30 for reduced fee lunches and breakfast, respectively. The fee being charged for reduced lunches was \$0.50 and the fee for breakfast for a portion of the year was \$0.35.

Effect:

Total amounts overcharged were approximately \$500 for the year.

Recommendation:

Steps should be implemented to ensure that the proper rates are charged for reduced fee breakfast and lunch.

Management's Response and Planned Corrective Action:

School management will work to address this issue and work with the auditors to develop a permanent solution. The Schools also switched to a school wide program for the 2015-2016 school year.

2015-004: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555

Condition:

The meal claim report for the month of September was not supported by accurate meal counts by category.

Criteria:

To receive reimbursement, the locality must submit a meal claim to the administrative agency that is supported by an accurate meal count.

Effect:

The errors noted in the September meal claim report totaled \$126.48.

Context:

We tested two months during the year and only noted the errors in the September counts.

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2015-004: Child Nutrition Cluster Program – CFDA Numbers 10.553, 10.555 (Continued)

Recommendation:

Steps should be implemented to ensure that the meal claims are supported by accurate counts.

Management's Response and Planned Corrective Action:

School management will work to address this issue and work with the auditors to develop a permanent solution. The Schools also switched to a school wide program for the 2015-2016 school year.

2015-005: Commonwealth of Virginia Disclosure Statements (Schools)

Condition:

All five School officials did not file a statement of economic interest by the December 15, 2014 due date deadlines as required by the *Code of Virginia*. In addition, none of the school officials filed a form for the June 15, 2015 submission.

Recommendation:

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

Management's Response and Planned Corrective Action:

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

2015-006: Highway Maintenance – Work Orders (Town)

Condition:

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

Recommendation:

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

Management Response:

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

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

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

2015-007: Unclaimed Property (Schools)

Condition:

We noted twenty seven outstanding checks totaling \$9,848.77 for the Schools that are greater than a year old and have not been reported to the Commonwealth as unclaimed property.

Recommendation:

Checks that are older than one year as of the first day of the fiscal year should be reported to the Commonwealth on an unclaimed property report.

Management's Response:

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

2015-008: Budget Compliance (Town)

Condition:

The Town spent \$5,000 more on parks, recreation, and cultural than budgeted. It is a violation of the Code of Virginia to expend funds in excess of appropriations.

Recommendation:

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

Managements Response:

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

TOWN OF COLONIAL BEACH, VIRGINIA

**SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2015**

A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

13-006: Completeness of Schedule of Federal Awards (Material Weakness) (Town)

Condition:

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

Recommendation:

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

Current Status:

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