TOWN OF COLONIAL BEACH, VIRGINIA

FINANCIAL REPORT

JUNE 30, 2012

TOWN OF COLONIAL BEACH, VIRGINIA
FINANCIAL REPORT

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Frederick Rummage, Mayor
Burkett Lyburn, Vice Mayor
Mike Ham
Gary Seeber
L. "Tommy" Edwards
Timothy E. Curtin
Jim Chiarello

OTHER OFFICIALS

Val Foulds, Town Manager
Kathleen Flanagan, Town Clerk
Andrea G. Erard, Town Attorney
Joan Grant, Chief Financial Officer
Kenneth W. Blevins, Sr., Chief of Police
Robert Murphy, Director of Public Works
Dr. Donna Power, Superintendent of Schools

SCHOOL BOARD

Tim Trivett, Chairman
Mike Looney, Vice Chairman
C. Wayne Kennedy
Michelle Payne
Vicky Roberson

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 units, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2012, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, 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* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that governmental principals 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.

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

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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 15, 2012

BASIC FINANCIAL STATEMENTS

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Totals	School Board
ASSETS				
Cash and cash equivalents (Note 2)	$ 2,905,341	$ 834,642	$ 3,739,983	$ 787,512
Receivables, net (Note 3)	275,794	219,664	495,458	-
Due from other governments (Note 3)	55,240	-	55,240	253,166
Due from component unit (Note 4)	338,487	-	338,487	-
Prepaids	-	-	-	48,799
Restricted cash and cash equivalents (Note 2)	-	77,015	77,015	-
Capital assets: (Note 5)				
Nondepreciable	1,395,942	417,052	1,812,994	172,208
Depreciable, net	867,669	15,504,359	16,372,028	1,605,911
Total assets	5,838,473	17,052,732	22,891,205	2,867,596
LIABILITIES				
Accounts payable and other current liabilities	133,828	178,162	311,990	729,329
Accrued interest payable	22,700	35,603	58,303	-
Due to primary government (Note 4)	-	-	-	338,487
Unearned revenue (Note 6)	97,975	-	97,975	-
Noncurrent liabilties: (Note 7)				
Due within one year	231,317	678,108	909,425	94,004
Due in more than one year	1,273,640	5,384,153	6,657,793	590,902
Total liabilities	1,759,460	6,276,026	8,035,486	1,752,722
NET ASSETS				
Invested in capital assets, net of related debt	865,332	9,875,767	10,741,099	1,778,119
Restricted per debt agreement	-	77,015	77,015	-
Unrestricted	3,213,681	823,924	4,037,605	(663,245)
Total net assets	$ 4,079,013	$ 10,776,706	$ 14,855,719	$ 1,114,874

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

EXHIBIT 2

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets — Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Totals**	**Discretely Presented Component Unit School Board**
Primary Government:								
Governmental activities:								
General government	$ 940,831	13,449	28,745	-	$ (898,637)		$ (898,637)	$ -
Public safety	1,290,602	35,814	122,557	-	(1,132,231)		(1,132,231)	-
Public works	729,128	56,493	4,325	-	(668,310)		(668,310)	-
Health and welfare	4,800	-	-	-	(4,800)		(4,800)	-
Parks, recreation, and cultural	6,300	-	5,000	-	(1,300)		(1,300)	-
Community development	236,696	51,306	138,018	-	(47,372)		(47,372)	-
Education	1,821,246	-	-	-	(1,821,246)		(1,821,246)	-
Interest on long-term debt	48,674	-	-	-	(48,674)		(48,674)	-
Total governmental activities	5,078,277	157,062	298,645	-	(4,622,570)		(4,622,570)	-
Business-type activities:								
Water	2,173,191	2,050,742	-	-		$ (122,449)	(122,449)	-
Total business-type activities	2,173,191	2,050,742	-	-		(122,449)	(122,449)	-
Total primary government	$ 7,251,468	$ 2,207,804	$ 298,645	$ -	(4,622,570)	(122,449)	(4,745,019)	-
Discretely Presented Component Unit:								
School Board	$ 6,836,983	$ 101,676	$ 4,798,810	$ -				(1,936,497)
General revenues:								
Taxes:								
General property taxes					3,361,859	-	3,361,859	-
Other local taxes:								
Local sales and use					172,128	-	172,128	-
Food and lodging					329,011	-	329,011	-
Consumer utility and communications sales and use					302,470	-	302,470	-
Other					329,474	-	329,474	-
Contributions from Town					-	-	-	1,821,246
Intergovernmental, non-categorical aid					240,317	-	240,317	-
Gain on sale of town property					148,733	-	148,733	-
Use of money and property					32,144	-	32,144	-
Other					3,463	47,983	51,446	369,551
Transfers (Note 4)					150,000	(150,000)	-	-
Total general revenues and transfers					5,069,599	(102,017)	4,967,582	2,190,797
Change in net assets					447,029	(224,466)	222,563	254,300
NET ASSETS AT JULY 1, AS RESTATED (Note 14)					3,631,984	11,001,172	14,633,156	860,574
NET ASSETS AT JUNE 30					$ 4,079,013	$ 10,776,706	$ 14,855,719	$ 1,114,874

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

EXHIBIT 3

TOWN OF COLONIAL BEACH, VIRIGNIA

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,579,188	$ 191,085	$ 135,068	$ 2,905,341
Receivables, net (Note 3)	275,794	-	-	275,794
Due from other governments (Note 3)	55,240	-	-	55,240
Due from component unit (Note 4)	338,487	-	-	338,487
Total assets	$ 3,248,709	$ 191,085	$ 135,068	$ 3,574,862
LIABILITIES				
Accounts payable and other current liabilities	$ 133,828	$ -	$ -	$ 133,828
Deferred revenue (Note 6)	209,296	-	-	209,296
Total liabilities	343,124	-	-	343,124
FUND BALANCES				
Nonspendable:				
Long-term amounts due from component unit	338,487	-	-	338,487
Assigned for:				
Capital projects	-	191,085	-	191,085
Erosion funds	-	-	135,068	135,068
Unassigned	2,567,098	-	-	2,567,098
Total fund balances	2,905,585	191,085	135,068	3,231,738
Total liabilities and fund balances	$ 3,248,709	$ 191,085	$ 135,068	$ 3,574,862

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

EXHIBIT 4

TOWN OF COLONIAL BEACH, VIRIGNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balance - Governmental Funds		$ 3,231,738
Amounts reported for governmental activities in the statement of net assets 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	867,669	
		2,263,611
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		111,321
Long-term liabilities are not due and paayble in the current period and therefore are not reported in the funds.		
Bonds payable, including unamortized deferred amounts	(1,398,279)	
Compensated absences	(106,678)	
Accrued interest payable	(22,700)	
		(1,527,657)
Total Net Assets - Governmental Activities		$ 4,079,013

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

EXHIBIT 5

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	$ 3,369,743	$ -	$ -	$ 3,369,743
Other local taxes	1,133,083	-	-	1,133,083
Permits, privilege fees, and regulatory licenses	88,060	-	-	88,060
Charges for services	56,493	-	-	56,493
Use of money and property	32,130	-	-	32,130
Miscellaneous	120,687	-	-	120,687
Intergovernmental	434,261	-	-	434,261
Total revenues	5,234,457	-	-	5,234,457
EXPENDITURES				
Current:				
General government	934,323	-	-	934,323
Public safety	1,330,396	-	-	1,330,396
Public works	703,088	-	-	703,088
Health and welfare	4,800	-	-	4,800
Parks, recreation, and culturual	5,000	-	-	5,000
Community development	235,153	-	-	235,153
Education	1,821,246	-	-	1,821,246
Debt service:				
Principal retirement (Note 7)	135,812	-	-	135,812
Interest and fiscal charges	52,206	-	-	52,206
Total expenditures	5,222,024	-	-	5,222,024
Excess of revenues over expenditures	12,433	-	-	12,433
OTHER FINANCING SOURCES (USES)				
Sale of property	-	148,733	-	148,733
Transfers in (Note 4)	150,000	-	100,307	250,307
Transfers out (Note 4)	(100,307)	-	-	(100,307)
Total other financing sources (uses)	49,693	148,733	100,307	298,733
Net change in fund balance	62,126	148,733	100,307	311,166
FUND BALANCES AT JULY 1, AS RESTATED (Note 14)	2,843,459	42,352	34,761	2,920,572
FUND BALANCES AT JUNE 30	$ 2,905,585	$ 191,085	$ 135,068	$ 3,231,738

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

EXHIBIT 6

TOWN OF COLONIAL BEACH, VIRIGNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

Net Change in Fund Balance - Governmental Funds		$ 311,166
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	$ 92,806	
Depreciation expense	(83,905)	
		8,901
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(7,884)
The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net assets.		135,812
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	$ 3,532	
Change in compensated absences	(4,498)	
		(966)
Change in Net Assets - Governmental Activities		$ 447,029

EXHIBIT 7

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2012

	Business-Type Activities
	Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 834,642
Receivables, net	219,664
Total current assets	1,054,306
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	77,015
Nondepreciable assets (Note 5)	417,052
Depreciable assets, net (Note 5)	15,504,359
Total noncurrent assets	15,998,426
Total assets	17,052,732
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	178,162
Accrued interest payable	35,603
Compensated absences (Note 7)	16,617
Current portion of long-term liabilities (Note 7)	661,491
Total current liabilities	891,873
Noncurrent liabilities:	
Long-term debt (Note 7)	5,384,153
Total noncurrent liabilities	5,384,153
Total liabilities	6,276,026
NET ASSETS	
Invested in capital assets, net of related debt	9,875,767
Restricted per debt agreement	77,015
Unrestricted	823,924
Total net assets	$ 10,776,706

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

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
Year Ended June 30, 2012

	Business-Type Activities Enterprise Fund Water and Sewer
OPERATING REVENUES	
Charges for services	$ 1,976,642
Other	47,983
Total operating revenues	2,024,625
OPERATING EXPENSES	
Personnel	664,284
Operating	852,802
Depreciation	527,801
Total operating expenses	2,044,887
Operating loss	(20,262)
NONOPERATING REVENUES (EXPENSES)	
Connection fees	74,100
Interest expense	(128,304)
Net nonoperating expenses	(54,204)
Loss before transfers	(74,466)
TRANSFERS OUT (Note 4)	(150,000)
Change in net assets	(224,466)
NET ASSETS JULY 1, AS RESTATED (Note 14)	11,001,172
NET ASSETS JUNE 30	$ 10,776,706

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

EXHIBIT 9

TOWN OF COLONIAL BEACH, VIRGINIA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2012

	Business-Type Activities Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	$ 1,992,842
Receipts from other sources	47,983
Payments to suppliers	(781,163)
Payments to employees	(676,010)
Net cash provided by operating activities	583,652
NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Repayment of amounts due from other funds	10,000
Transfers out	(150,000)
Connection fees	74,100
Net cash used in noncapital financing activities	(65,900)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(288,813)
Principal paid on long-term debt	(667,885)
Proceeds from bond issuances	399,989
Interest paid on long-term debt	(127,920)
Net cash used in capital and related financing activities	(684,629)
Net decrease in cash and cash equivalents	(166,877)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	1,078,534
Ending at June 30	$ 911,657
RECONCILIATION TO EXHIBIT 7	
Cash and investments	$ 834,642
Restricted cash	77,015
Total	$ 911,657
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (20,262)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	527,801
Change in assets and liabilities:	
Decrease in:	
Receivables, net	16,200
Increase (decrease) in:	
Accounts payable and other current liabilities	71,639
Compensated absences	(11,726)
Net cash provided by operating activities	$ 583,652

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

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Colonial Beach, Virginia (the "Town") was established by an act of the Virginia General Assembly in 1837 and is one of two incorporated towns in Westmoreland County, Virginia. 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 government and its component unit, entities for which the government 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 government.

Discretely Presented Component Unit:

The Colonial Beach School Board was created as a separate legal entity by the Town to oversee the operations and management of its publicly funded primary and secondary schools. While the Town does not appoint members of to the Board, the Town does approve the School Board's budget and any debt issued and does provide 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 assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. Likewise, *the primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Governmental funds account for the expendable financial resources, other than those accounted for in Proprietary Funds. The governmental funds use the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than on net income determination as would apply to a commercial enterprise. The Town reports the following major governmental funds:

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

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

Additionally, the Town reports the following individual non-major governmental fund.

The *erosion fund* is used to account for financial resources required to be used for beach erosion and required to be accounted for separately.

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 and sewer fund* accounts for the activities of the water and sewage treatment plants, sewage pumping stations and collection systems, and the water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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.

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 $28,200 in the general fund.

At June 30, total expenditures related to public safety and debt service exceeded budgeted amounts by $34,431 and $12,822, respectively.

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.

(Continued)

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 assets 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. $7,503 of interest was capitalized during the current year.

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

	Years
Buildings	50
Improvements other than buildings	20
Vehicles and equipment	5-20

J. Deferred Revenue

Deferred revenue consists of delinquent property taxes and sales tax not collected within 45 days of year end and taxes paid in advance.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

L. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

M. Fund Balances

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 funds.

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, the Town Council; 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.

N. Restricted Amounts

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

O. Minimum Fund Balance Policy

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

Note 1. Summary of Significant Accounting Policies (Continued)

P. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, total $163,093 in the School Operating Fund.

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.

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.

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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.

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

	Primary Government	Component Unit – School Board
Demand deposits	$ 3,271,056	$ 787,512
Certificates of deposit	545,942	-
Total deposits and investments	$ 3,816,998	$ 787,512
Reconciliation to Statement of Net Assets – Exhibit 1:		
Cash and cash equivalents	$ 3,739,983	$ 787,512
Cash and cash equivalents, restricted	77,015	-
Total deposits and investments	$ 3,816,998	$ 787,512

Interest Rate Risk:

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

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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.

Note 3. Receivables and Due from Other Governments

The following amounts represent receivables at June 30:

	General	Water and Sewer	Total	Component Unit-School Board
Accounts receivable:				
Taxes	$ 312,424	$ -	$ 312,424	$ -
Other	10,395	313,108	323,503	-
Gross Receivables	322,819	313,108	635,927	-
Less: allowance for uncollectibles	(47,025)	(93,444)	(140,469)	-
Receivables, net	$ 275,794	$ 219,664	$ 495,458	$ -
Other governments:				
Communications tax	$ 17,227	$ -	$ 17,227	$ -
Sales tax	30,786	-	30,786	88,192
Grant reimbursement	-	-	-	157,844
Medicaid	-	-	-	4,290
Other state funds	7,227	-	7,227	2,840
Total due from other governments	$ 55,240	$ -	$ 55,240	$ 253,166

Note 4. Interfund Receivables, Payables, and Transfers

The Component Unit School Board has an obligation of $338,487 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 balances in the general fund.

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund		Amount
Water and Sewer	General Fund	$	150,000
General Fund	Erosion Fund – non major		100,307

The transfer out from the water and sewer fund to the general fund is to reimburse the general fund for certain services provided to the water and sewer fund. The transfer from the general fund to the erosion fund was to set amounts aside for future beach erosion projects.

Note 5. Capital Assets

Primary Government

A summary of the changes in the capital assets for *governmental activities* is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not being depreciated:				
Land	$ 1,395,942	$ -	$ -	$ 1,395,942
Capital assets, being depreciated:				
Buildings and improvements	798,870	-	-	798,870
Equipment	547,002	33,918	-	580,920
Vehicles	847,664	58,888	-	906,552
Total capital assets being depreciated	2,193,536	92,806	-	2,286,342
Less accumulated depreciation for:				
Buildings and improvements	(243,987)	(16,683)	-	(260,670)
Equipment	(397,634)	(31,917)	-	(429,551)
Vehicles	(693,147)	(35,305)	-	(728,452)
Total accumulated depreciation	(1,334,768)	(83,905)	-	(1,418,673)
Total capital assets being depreciated, net	858,768	8,901	-	867,669
Governmental activities capital assets, net	$ 2,254,710	$ 8,901	$ -	$ 2,263,611

(Continued)

Note 5. Capital Assets (Continued)

Primary Government (Continued)

Depreciation expense was charged to functions/programs of the Town's governmental activities as follows:

Governmental activities:		
General government	$	9,832
Public safety		10,914
Public works		61,859
Parks, recreation, and cultural		1,300
Total depreciation expense – governmental activities	$	83,905

A summary of the changes in the capital assets for *business-type activities* is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not being depreciated:				
Land	$ 29,280	$ -	$ -	$ 29,280
Construction in progress	240,942	146,830	-	387,772
Total capital assets not being depreciated	270,222	146,830	-	417,052
Capital assets, being depreciated:				
Buildings and improvements	23,289,505	97,638	-	23,387,143
Equipment	201,785	44,345	-	246,130
Vehicles	390,320	-	-	390,320
Total capital assets being depreciated	23,881,610	141,983	-	24,023,593
Less accumulated depreciation for:				
Buildings and improvements	(7,705,529)	(489,493)	-	(8,195,022)
Equipment	(170,079)	(7,843)	-	(177,922)
Vehicles	(115,825)	(30,465)	-	(146,290)
Total accumulated depreciation	(7,991,433)	(527,801)	-	(8,519,234)
Total capital assets being depreciated, net	15,890,177	(385,818)	-	15,504,359
Business-type activities capital assets, net	$ 16,160,399	$ (238,988)	$ -	$ 15,921,411

(Continued)

Note 5. Capital Assets (Continued)

Component Unit – School Board

Summaries of the changes in the School Board's capital assets are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not being depreciated:				
Land	$ 172,208	$ -	$ -	$ 172,208
Capital assets, being depreciated:				
Buildings and improvements	2,506,206	107,164	-	2,613,370
Equipment	-	28,778	-	28,778
Vehicles	470,492	19,837	(3,000)	487,329
Total capital assets being depreciated	2,976,698	155,779	(3,000)	3,129,477
Less accumulated depreciation for:				
Buildings and improvements	(1,140,064)	(74,446)	-	(1,214,510)
Equipment	-	-	-	-
Vehicles	(277,167)	(34,889)	3,000	(309,056)
Total accumulated depreciation	(1,417,231)	(109,335)	3,000	(1,523,566)
Total capital assets being depreciated, net	1,559,467	46,444	-	1,605,911
School board capital assets, net	$ 1,731,675	$ 46,444	$ -	$ 1,778,119

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

Note 6. Unearned/Deferred Revenue

Governmental funds report deferred 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, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Property taxes	$ 95,289	$ -	$ 95,289
Sales tax	16,032	-	16,032
Property taxes paid in advance	-	97,975	97,975
Totals	$ 111,321	$ 97,975	$ 209,296

Deferred revenue for the School Board consists of unavailable sales tax revenue of $38,729.

Note 7. Long-Term Debt

Primary Government

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

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	$ 1,534,091	$ -	$ 135,812	$ 1,398,279	$ 139,712
Compensated absences	102,180	92,241	87,743	106,678	91,605
Governmental activities long-term liabilities	$ 1,636,271	$ 92,241	$ 223,555	$ 1,504,957	$ 231,317
Business-type Activities:					
General obligation bonds	$ 3,027,605	$ -	$ 197,889	$ 2,829,716	$ 191,495
Revenue bonds	3,285,935	399,989	469,996	3,215,928	469,996
Compensated absences	30,512	22,821	36,716	16,617	16,617
Business-type activities long-term liabilities	$ 6,344,052	$ 422,810	$ 704,601	$ 6,062,261	$ 678,108

Refer to Note 14 for explanation of the restatement.

Note 7. Long-Term Debt (continued)

Primary Government (Continued)

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

	Governmental Activities		Business Type Activities		Total	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2013	$ 139,712	$ 47,899	$ 661,491	$ 130,573	$ 801,203	$ 178,472
2014	147,245	42,883	667,964	123,760	815,209	166,643
2015	151,202	37,581	331,932	116,487	483,134	154,068
2016	159,820	32,009	341,635	108,768	501,455	140,777
2017	156,628	26,338	342,616	100,849	499,244	127,187
2018-2022	212,404	95,279	1,401,805	406,278	1,614,209	501,557
2023-2027	153,450	58,854	1,201,344	269,067	1,354,794	327,921
2028-2032	99,000	32,876	669,256	163,658	768,256	196,534
2033-2037	178,818	8,963	400,659	60,081	569,477	69,044
2038-2042	-	-	26,942	758	36,942	768
	$ 1,398,279	$ 382,682	$ 6,045,644	$ 1,480,279	$ 7,443,923	$ 1,862,971

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	$ 604,010	$ 320,552
General Obligation Public Improvement and Revenue Bond	4.67% - 14.86%	2005	2035	2,686,000	794,269	1,365,731
General Obligation Public Improvement Bonds	0.0%	1993	2014	6,875,000	-	691,185
RUS Sewer Loan	4.50%	1999	2039	1,161,000	-	958,761
General Obligation Public Improvement Bonds	0.0%	2008	2029	2,672,000	-	2,114,850
General Obligation Public Improvement Bonds	2.50%	2010	2050	1,088,000	-	339,017
USDA Rural Development note payable	4.25%	2011	2026	265,428	-	255,548
					$ 1,398,279	$ 6,045,644

The Town has drawn down $375,503 of the 2010 general obligation bond and may draw down an additional $712,497 to fund ongoing sewer projects.

Note 7. Long-Term Debt (Continued)

Primary Government (Continued)

School Board

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

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities - School Board					
Capital leases	$ 49,728	$ -	$ 49,728	$ -	$ -
Compensated absences	147,146	-	15,537	131,609	94,004
Other post-employment benefits	417,467	135,830	-	553,297	-
School board long-term liabilities	$ 614,341	$ 135,830	$ 65,265	$ 684,906	$ 94,004

Note 8. Virginia Retirement System

Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

Note 8. Virginia Retirement System (Continued)

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 8. Virginia Retirement System (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. The employer has assumed this 5.00% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for 2012 was 12.75% of annual covered payroll. The School Board's contribution rate for 2012 was 6.33% of annual covered payroll.

The School Board's required contributions to the teacher cost-sharing pool for professional employees were $356,871 for 2012, $280,796 for 2011, and $326,409 for 2010. In each year, the School Board has contributed 100% of the required contributions.

Annual Pension Cost

For 2012, the Town's annual pension cost was equal to the Town's required and actual contributions.

Three-Year Trend Information
Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 224,746	100%	$ -
June 30, 2011	$ 260,620	100%	$ -
June 30, 2010	$ 237,818	100%	$ -

The annual required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Note 8. Virginia Retirement System (Continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 97.66% funded. The actuarial accrued liability for benefits was $4,374,336 and the actuarial value of assets was $4,271,902, resulting in an unfunded actuarial accrued liability (UAAL) of $102,434. The covered payroll (annual payroll of active employees covered by the plan) was $1,727,986 and ratio of the UAAL to the covered payroll was 5.93%.

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

Note 9. Other Post-employment Benefits

Plan Description

The School Board adopted Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) including health insurance during 2012 retroactively via a restatement. This standard addresses how the School Board should account for and report costs related to post-employment health care. Retirees benefit from a lower insurance rate as a result of inclusion in the plan with active School Board employees. This lower rate results in an implicit rate subsidy that qualifies as OPEB, as defined by GASB Statement No. 45.

GASB Statement No. 45 requires the School Board to recognize the cost of the retiree health subsidy during the period of employee's active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the School Board.

The School Board provides OPEB for retirees through a single-employer defined benefit plan. Medical insurance benefits are available to eligible retirees, their spouses, and dependents. Retirees are eligible to participate in the Board's health insurance plan at full cost to the retiree until age 65.

Funding Policy

The retiree pays 100% for coverage, including dependent coverage. Employees must retire from the Schools to be eligible for post-retirement health coverage.

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is $143,473 for 2012.

The School Board has elected not to pre-fund OPEB liabilities. The School Board is required to recognize the annual required contribution of the employer (ARC) an amount determined in accordance with the parameters of the alternative measurement method of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Note 9. Other Post-employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the School's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the School's net OPEB obligation for the healthcare benefits:

Annual required contribution	$	143,473
Interest on net OPEB obligation		16,699
Adjustment to annual required contribution		(16,340)
Annual OPEB cost		143,832
Age adjusted contributions made		(8,002)
Increase in net OPEB obligation		135,830
Net OPEB obligation – beginning of year (as restated)		417,467
Net OPEB obligation – end of year	$	553,297

Trend Information

The School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 143,832	5.6%	$ 553,297
June 30, 2011	$ 149,109	5.4%	$ 417,467
June 30, 2010	$ 148,892	5.4%	$ 276,361

Funded Status and Funding Progress

The funding status of the plan as of June 30, 2012 was as follows:

Actuarial Accrued Liability (AAL)	$	905,189
Actuarial Value of Plan Assets	$	-
Unfunded Actuarial Accrued Liability (UAAL)	$	905,189
Funded Ratio (Actuarial Value of Plan Assets/AAL)		-%
Covered Payroll (Active Plan Members)	$	1,892,364
UAAL as a Percentage of Covered Payroll		47.83%

Note 9. Other Post-employment Benefits (Continued)

Funded Status and Funding Progress (Continued)

The alternative measurement method of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions include a 4% discount rate, which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The open amortization method and a 30-year amortization period are being used. The remaining amortization period at June 30 was 30 years.

The following additional simplifying assumptions were made:

Coverage Status and Age of Spouse – Actual coverage status is used; females assumed 3 years younger than male spouse. Employees with individual coverage are assumed to elect individual coverage in retirement, those with spouse/family coverage assumed to continue this coverage at retirement.

50% of actives currently enrolled in the School's health care plan, will continue in the plan upon retiring or becoming disabled.

Healthcare Cost Assumptions – The cost trend numbers used in the analysis were developed consistent with the Getzen model promulgated by the Society of Actuaries for use in long-term trend projection.

Payroll is assumed to increase at 2.9% per annum. This assumption is used to determine the level percentage of payroll amortization factor.

Note 10. Property Taxes

The Town collects real property taxes semiannually and personal property taxes annually. Real and personal property in the Town is assessed by the Commissioner of Revenue of the County of Westmoreland, Virginia. 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 considered 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 $0.60 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.

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.

The Town received approximately $22,000 in insurance proceeds for damaged equipment in 2012.

The Schools received the following insurance proceeds in 2012:

Embezzlement claim	$ 250,000
Storm damage	45,955
Vandalized computers	15,560
	$ 311,515

Note 12. Grant Programs

Under the terms of federal and state grant, 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

Construction Contracts:

The Town expects to extend construction contracts totaling approximately $4,000,000 for improvements to the sewer system as required by the State Water Control Board as noted below. The Town has loan and grant funds available to meet approximately $1,500,000 of the construction requirement. The Town plans to issue debt to cover the remaining costs.

State Water Control Board Enforcement Action:

In 2007, the State Water Control Board issued an action against the Town. The Town has paid all fines but must make planned improvements to the sewer system before the consent order will be released.

Road Maintenance:

As of July 1, 2012, the Town will be responsible for maintaining certain secondary roads within the Town borders. In the past, roads were maintained by the Virginia Department of Transportation. The Town will receive State funding for the maintenance of approximately $612,000 and will record the roads as infrastructure.

Police Department Lease:

The Town signed a commercial lease to rent the police department building for a five year period beginning July 1, 2009 and ending on June 30, 2014. The Town pays $2,500 a month under the lease agreement.

(Continued)

Note 14. Restatement of Fund Balances/Net Assets

The following is a summary of the restatement to fund balances/net assets:

	Primary Government				Component Unit - School Board	
	General Fund	Capital Projects	Governmental Activities	Water and Sewer Fund	Schools Operating Fund	School Board Governmental Activites
Fund balance/net assets, June 30, 2011, as previously stated	$ 2,836,873	$ -	$ 3,578,494	$11,449,567	$ (69,536)	1,302,080
To record capital projects fund	-	42,352	42,352	-	-	-
To record sales tax revenue	-	-	21,185	-	-	52,331
To record FICA on compensated absences	-	-	(7,261)	-	-	(10,457)
To accrue utility unbilled A/R	-	-	-	17,189	-	-
To remove loan discount and loan discount amortization amounts	-	-	-	(477,737)	-	-
To correct beginning debt balance	-	-	-	10,000	-	-
To remove liability for personal leave	-	-	-	-	-	39,493
To record FICA and other benefits on accrued payroll	-	-	-	-	(56,963)	(56,963)
To record sick leave	-	-	-	-	-	(48,443)
To record OPEB	-	-	-	-	-	(417,467)
To correct allowance for personal property receivables	-	-	(9,372)	-	-	-
To correct balance in payroll clearing account	6,586	-	6,586	2,153	-	-
Fund balance/net assets June 30, 2011, as restated	$ 2,843,459	$ 42,352	$ 3,631,984	$11,001,172	$ (126,499)	$ 860,574

(Continued)

Note 15. New Accounting Standards

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

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* modifies certain requirements for the inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the "substantively the same governing body" criterion, it additionally requires that a financial benefit or financial burden relationship exist or that management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

(Continued)

Note 15. New Accounting Standards (Continued)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

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

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

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 10

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULES OF FUNDING PROGRESS
Year Ended June 30, 2012

TOWN - VIRGINIA RETIREMENT SYSTEM

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2008	$ 3,738,308	$ 3,184,235	$ (554,073)	117.40%	$ 1,696,728	-32.66%
June 30, 2009	$ 3,936,379	$ 3,443,554	$ (492,825)	114.31%	$ 1,583,076	-31.13%
June 30, 2010	$ 4,092,348	$ 3,998,454	$ (93,894)	102.35%	$ 1,615,284	-5.81%
June 30, 2011	$ 4,271,902	$ 4,374,336	$ 102,434	97.66%	$ 1,727,986	5.93%

SCHOOL BOARD - OTHER POST-EMPLOYMENT BENEFITS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$ 905,189	$ 905,189	0.0%	$ 1,892,364	47.83%

EXHIBIT 11

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GENERAL FUND)
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Revenue from local sources:				
General property taxes:				
Real property	$ 2,719,559	$ 2,719,559	$ 2,681,749	$ (37,810)
Personal property	380,414	477,414	488,593	11,179
Delinquent	95,100	95,100	138,907	43,807
Penalties and interest	27,500	27,500	60,494	32,994
Total general property taxes	3,222,573	3,319,573	3,369,743	50,170
Other local taxes:				
Communication sales and use	200,000	200,000	203,661	3,661
Food and lodging	300,000	300,000	329,011	29,011
Bank stock	40,000	40,000	35,571	(4,429)
Business license taxes	141,343	141,343	130,209	(11,134)
Local sales and use taxes	190,000	190,000	172,128	(17,872)
Consumer utility taxes	90,000	90,000	98,809	8,809
Motor vehicle license	100,000	100,000	83,180	(16,820)
Cigarette tax	100,000	100,000	80,514	(19,486)
Total other local taxes	1,161,343	1,161,343	1,133,083	(28,260)
Permits, fees, and licenses	110,800	110,800	88,060	(22,740)
Charges for services	72,200	72,200	56,493	(15,707)
Use of money and property:				
Interest	15,615	15,615	16,684	1,069
Rental of property	16,910	16,910	15,446	(1,464)
Total use of money and property	32,525	32,525	32,130	(395)
Miscellaneous	8,172	8,172	120,687	112,515
Intergovernmental	362,958	403,015	434,261	31,246
Total revenue	4,970,571	5,107,628	5,234,457	126,829
EXPENDITURES				
General government	1,028,035	1,013,185	934,323	78,862
Public safety	1,212,908	1,295,965	1,330,396	(34,431)
Public works	798,333	822,533	703,088	119,445
Health and welfare	4,800	4,800	4,800	-
Parks, recreation, and cultural	5,000	5,000	5,000	-
Community development	259,603	269,603	235,153	34,450
Education	1,608,496	1,821,246	1,821,246	-
Debt service:				
Principal retirement	118,910	118,910	135,812	(16,902)
Interest and fiscal charges	56,286	56,286	52,206	4,080
Total debt service	175,196	175,196	188,018	(12,822)
Total expenditures	5,092,371	5,407,528	5,222,024	185,504
Excess (deficiency) of revenue over expenditures	(121,800)	(299,900)	12,433	312,333
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	300,000	150,000	(150,000)
Transfers out	-	-	(100,307)	(100,307)
Total other financing sources (uses)	150,000	300,000	49,693	(250,307)
Net change in fund balance	$ 28,200	$ 100	$ 62,126	$ 62,026

SCHOOL BOARD - COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

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 subsidiaries. Such funds are limited by federal and state law to expenditures for cafeteria operations and maintenance.

EXHIBIT 12

TOWN OF COLONIAL BEACH, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	School Operating Fund	School Cafeteria Fund	School Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 725,324	$ 28,180	$ 34,008	$ 787,512
Due from other governments	253,166	-	-	253,166
Total assets	$ 978,490	$ 28,180	$ 34,008	$ 1,040,678
LIABILITIES				
Accounts payable and accrued liabilities	$ 729,329	$ -	$ -	$ 729,329
Deferred revenue	38,729	-	-	38,729
Due to primary government	20,683	-	317,804	338,487
Total liabilities	788,741	-	317,804	1,106,545
FUND BALANCES (DEFICITS)				
Assigned	189,749	28,180	(283,796)	(65,867)
Total fund balances (deficits)	189,749	28,180	(283,796)	(65,867)
Total liabilities and fund balances (deficits)	$ 978,490	$ 28,180	$ 34,008	$ 1,040,678

Total fund balances (deficits)		$ (65,867)
Amounts reported for the School Board's governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Nondepreciable	$ 172,208	
Depreciable, net	1,605,911	
		1,778,119
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds		38,729
Certain expenditures are not prepaid but not considered current financial resources in the governmental funds.		48,799
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Compensated absences	(131,609)	
Net OPEB obligation	(553,297)	
		(684,906)
Net assets of governmental activities		$ 1,114,874

EXHIBIT 13

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, 2012

	School Operating Fund	School Cafeteria Fund	School Capital Projects Fund	Total Governmental Funds
REVENUES				
Charges for services	$ 35,842	$ 65,834	$ -	$ 101,676
Miscellaneous	43,236	-	-	43,236
Payments from primary government	1,821,246	-	-	1,821,246
Intergovernmental	4,669,636	142,776	-	4,812,412
Total revenue	6,569,960	208,610	-	6,778,570
EXPENDITURES				
Education	6,511,322	236,542	-	6,747,864
Debt Service:				
Principal retirement	49,728	-	-	49,728
Interest and fiscal charges	4,177	-	-	4,177
Total expenditures	6,565,227	236,542	-	6,801,769
Excess (deficiency) of revenues over expenditures	4,733	(27,932)	-	(23,199)
OTHER FINANCING SOURCES				
Insurance proceeds	311,515	-	-	311,515
Total other financing sources	311,515	-	-	311,515
Net change in fund balance	316,248	(27,932)	-	288,316
Fund balances (deficits), July 1	(126,499)	56,112	(283,796)	(354,183)
Fund balances (deficits), June 30	$ 189,749	$ 28,180	$ (283,796)	$ (65,867)

Net change in fund balances		$ 288,316
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. amount by which depreciation and amortization were more than capital outlays in the current period.		
Capital outlays	$ 155,779	
Depreciation expense	(109,335)	
		46,444
Some expenses deferred in the statement of activities require the use of current financial resources and are reported as expenditures in the governmental funds		(13,602)
The repayment of principal of long-term debt consumes current financial resources of governmental funds. However, the transaction has no effect on net assets.		49,728
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	3,707	
Change in compensated absences	15,537	
Changed in net OPEB obligation	(135,830)	
		(116,586)
Change in net assets of governmental activities		$ 254,300

EXHIBIT 14

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, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Charges for services	$ 30,000	$ 30,000	$ 35,842	$ 5,842
Miscellaneous	266,345	266,345	43,236	(223,109)
Payments from primary government	1,608,496	1,821,246	1,821,246	-
Intergovernmental	4,906,058	5,188,438	4,669,636	(518,802)
Total revenues	6,810,899	7,306,029	6,569,960	(736,069)
EXPENDITURES				
Education	6,788,801	7,283,931	6,511,322	772,609
Debt service:				
Principal retirement	26,953	26,953	49,728	(22,775)
Interest and fiscal charges	-	-	4,177	(4,177)
Total expenditures	6,815,754	7,310,884	6,565,227	745,657
Excess (deficiency) of revenues over expenditures	(4,855)	(4,855)	4,733	9,588
OTHER FINANCING SOURCES				
Insurance proceeds	-	-	311,515	311,515
Total other financing sources	-	-	311,515	311,515
Net change in fund balance	$ (4,855)	$ (4,855)	$ 316,248	$ 321,103

COMPLIANCE SECTION

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 the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Colonial Beach, Virginia, as of and for the year ended June 30, 2012 which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 15, 2012. 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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of the Town of Colonial Beach, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, these can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 12-1, 12-2, 12-3 and 12-4 to be material weakness.**

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 described in the accompanying schedule of findings and questioned costs as items 12-5, 12-6, 12-7 and 12-8.**

We noted certain matters that we reported to management of the Town in a separate letter dated October 15, 2012.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses, and accordingly, we express no opinion on them.

****

This report is intended solely for the information and use of the audit committee, management, others within the Town, state and federal awarding agencies, pass-through entities, and Town Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 15, 2012

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

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

Compliance

We have audited the Town of Colonial Beach, Virginia's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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

Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.**

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.

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

This report is intended solely for the information and use of the audit committee, management, others within the Town, federal awarding agencies and pass-through entities, and Town Council and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 15, 2012

TOWN OF COLONIAL BEACH, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/	Federal CFDA Number	Federal Expenditures in Clusters	Federal Expenditures
U.S. Department of Agriculture			
Commonwealth of Virginia Department of Agriculture and Consumer Services			
National School Lunch Program	10.555		$ 110,528
National School Lunch Program - Commodities	10.555		8,692
School Breakfast Program	10.553		28,912
Total U.S. Department of Agriculture			148,132
U.S. Department of Housing and Urban Development			
Direct payments:			
Community Development Block Grants/State's Program	14.228		19,561
Total U.S. Department of Housing and Urban Development			19,561
U.S. Department of Justice			
Pass-through payments:			
Department of Criminal Justice Services			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.738		37,144
Total U.S. Department of Justice			37,144
U.S. Department of Education			
Pass-through payments:			
Commonwealth of Virginia Department of Education:			
Title I Cluster			
Title I - Grants to Local Educational Agencies	84.010	465,935	
Recovery Act - Title I - Grants to States	84.389	29,159	495,094
Special Education Cluster			
Special Education - Grants to States	84.027	99,572	
Recovery Act - Special Education Grants to States	84.391	1,692	101,264
Vocational Education - Basic Grants to States	84.048		1,185
Safe and Drug Free Schools	84.186		4,268
Rural Education	84.358		3,705
Improving Teacher Quality State Grants	84.367		51,446
Recovery Act - School Improvement 1003G	84.388		687,386
Recovery Act - State Fiscal Stabilization Fund (SFSF) - Education, State Grants	84.394		69,176
Total U.S. Department of Education			1,413,524
Total Expenditures of Federal Awards			$ 1,618,361

TOWN OF COLONIAL BEACH, VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

I. Basis of Presentation

The accompanying schedule of expenditures of federal awards 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 $8,692 from the National School Lunch Program.

SUMMARY OF STATE AND LOCAL COMPLIANCE MATTERS
June 30, 2012

As more fully described in the 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

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, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Four material weaknesses** relating to the audit of the financial statements were reported in the 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. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion** on all major federal programs.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the Town are:

Name of Program	CFDA #
ARRA – School Improvement Grant	84.388
Title I – Educationally Deprived Children – Local Education Agencies	84.010
ARRA – Title I Grants to Local Education Agencies	84.389

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**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

12-2: Auditor Adjustments (Material Weakness)

Condition:

We noted that there were errors which required adjustments to current year and prior period financial statements, indicating a material weakness in controls over financial reporting.

Recommendation:

The Town should implement steps to improve its financial reporting process. Specific recommendations are included in the letter on internal control matters.

Management's Response:

Following current auditing methodology and requirements will eliminate this condition.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

12-3: Journal Entries at the School Board (Material Weakness)

Condition:

School journal entries were not entered on a timely basis during the year. In addition, there was no evidence that they were reviewed and approved by someone other than the preparer.

Recommendation:

We recommend the adoption of a policy whereby all journal entries be approved by the Superintendent or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by full explanation and by reference to adequate supporting data. Entries should be then entered on a timely basis.

Management's Response:

A policy will be developed by the School Board to address this concern. For fiscal year 2013, all journal entries are being reviewed and approved before being entered. A copy of the approved entries are provided to the Town. The entries are being made on a monthly basis.

12-4: Cutoff (Material Weakness)

Condition:

Checks totaling $221,053 written by the School Board in July 2012 were presented as a reconciling item on the June bank reconciliation. A check for $85,655 written in June 2012 was recorded as an expenditure but held until the item was received from the vendor.

Recommendation:

We recommend that proper cutoff procedures be implemented to ensure that disbursements and expenditures are recorded in the proper period.

Management's Response:

Proper cutoff procedures will be implemented to avoid this timing issue in the future.

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

None noted

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-5: Commonwealth of Virginia Disclosure Statements

Condition:

None of the members of the School Board filed their statements of economic interest as required by the *Code of Virginia*.

Recommendation:

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

Management's Response:

Guidance is being sought to determine if, in fact, the Commonwealth requires that the statements mentioned be filed. If they are, steps will be taken to ensure that they are filed with the appropriate agency on a timely basis.

12-6: Unclaimed Property

Condition:

We noted thirty outstanding checks totaling $2,778 and $10,224 for the Town and Schools, respectively 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:

A system has been put in place to periodically review and void checks that have been reissued/outstanding. This process will eliminate this condition.

12-7: Nondiscrimination Clause

Condition:

A contract was reviewed that did not contain the required nondiscrimination clause.

Recommendation:

All contracts should be reviewed to ensure that all required nondiscrimination clauses are included.

Management's Response:

Review of future contracts will include this.

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

12-8: Budget Compliance

Condition:

The Town spent $34,431 and $16,902 more on public safety and principal retirement, respectively than budgeted. The School Board spent $22,775 and $4,177 more on principal retirement and interest expenses, respectively than budgeted. This is a violation of the *Code of Virginia*.

Recommendation:

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

Management's Response:

Certain funds had to be expended and reimbursement sought later. In the future, management will request budget adjustments on a more current basis to align with expenditures.

SCHEDULE OF PRIOR YEAR FINDINGS

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

11-4: School schedule of federal expenditures

Condition:

The School Board did not provide an accurate schedule of federal expenditures.

Recommendation:

The School Board should provide a complete and accurate schedule of federal expenditures.

Current Status:

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