

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

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 and 2020**

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

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

CURRENT MEMBERS OF THE BOARD AS OF JUNE 30, 2021

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

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

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

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

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

Mr. Douglas Waldron
Commissioner of the Revenue
City of Manassas
Manassas, Virginia

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

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

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

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

Mr. David Mekarski
Town Manager
Town of Purcellville
Purcellville, Virginia

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

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

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

Mr. Sam Finz
Interim Town Manager
Town of Lovettsville
Lovettsville, Virginia

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

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

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

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

BOARD OF OFFICERS AS OF JUNE 30, 2021

Mr. William Page Johnson, II ; Chairman
Mr. Douglas Waldron, Vice-Chairman
Mr. Gregory Bruch, Secretary/Treasurer

ADMINISTRATOR AS OF JUNE 30, 2021

Deborah L. Cannon

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

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Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the fiduciary activities, and the aggregate remaining fund information of the Northern Virginia Cigarette Tax Board as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Northern Virginia Cigarette Tax Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary activities and the aggregate remaining fund information of the Northern Virginia Cigarette Tax Board as of June 30, 2021 and 2020 and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of budget versus actual administration expenses on pages 3 through 4 and 15 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern Virginia Cigarette Tax Board's basic financial statements. The schedules of cash distributions to member jurisdictions on page 14 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of cash distributions to member jurisdictions are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash distributions to member jurisdictions is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2022, on our consideration of the Northern Virginia Cigarette Tax Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Virginia Cigarette Tax Board's internal control over financial reporting and compliance.



Certified Public Accountants
Chantilly, Virginia

January 24, 2022

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

Our discussion and analysis of the Northern Virginia Cigarette Tax Board's financial performance provide an overview of the Board's financial activities for the fiscal years ended June 30, 2021 and 2020. Please read it in conjunction with the accompanying financial statements that follow this section.

Overview of the Financial Statements

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

Fund Financial Statements

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

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

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

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

Financial Analysis

	Summary Statements of Fiduciary Net Position	
	<u>2021</u>	<u>2020</u>
Assets:		
Current Assets	\$1,326,979	\$1,498,060
Capital Assets	<u>65,474</u>	<u>72,674</u>
Total Assets	<u>1,392,453</u>	<u>1,570,734</u>
Liabilities:		
Current Liabilities	<u>\$1,392,453</u>	<u>\$1,570,734</u>

Summary Statements of Changes in Fiduciary Net Position

	<u>2021</u>	<u>2020</u>
Additions	<u>\$11,556,746</u>	<u>\$12,678,556</u>
Deductions		
Distributions to jurisdictions	10,650,709	11,804,686
Administration	<u>906,037</u>	<u>873,870</u>
Changes in Net Position	<u>\$ -</u>	<u>\$ -</u>

The decrease in additions to jurisdictions during the years ended June 30, 2021 and 2020 are due to the decrease in the population that smokes cigarettes and the increase in Virginia's tax. The vape alternative is taking over a larger share of smokers.

The decrease in the distributions to the jurisdictions are due to the population that smokes cigarettes are decreasing.

The increase in Administration costs is due to the combination of an increase in wages expense caused by a greater accrual of vacation leave; and an increase in wages, medical and retirement expenses resulting from annual cost of living increases and staffing additions incurred part way through the prior year.

Economic Factors and Future Outlook

Though the trend of fewer people smoking is expected to continue, FY2022 cigarette tax collected and distributions to jurisdictions is expected to increase significantly due to the Board's anticipated adoption of several new counties in FY2022.

With the anticipated addition of these new localities, administration expenses are expected to increase due to the hiring of additional staff and agents, the purchase of new vehicles and equipment, and the expected increase in the associated operating expenses.

Capital Assets

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

Contacting the Board's Financial Management

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

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

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 356,293	\$ 295,942
Cigarette tax revenue receivable	963,688	1,193,141
Seized cigarettes inventory	2,544	-
Prepaid rent	-	4,523
Rental deposits	4,454	4,454
TOTAL CURRENT ASSETS	<u>1,326,979</u>	<u>1,498,060</u>
CAPITAL ASSETS		
Furniture and equipment	52,760	46,084
Vehicle	84,616	84,616
Software development	19,907	19,907
Less: Accumulated depreciation	(91,809)	(77,933)
TOTAL CAPITAL ASSETS	<u>65,474</u>	<u>72,674</u>
TOTAL ASSETS	<u><u>\$ 1,392,453</u></u>	<u><u>\$ 1,570,734</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 26,581	\$ 18,957
Distributions payable	886,797	1,107,015
Undistributed receipts	34,318	30,981
Compensated absences	95,312	75,352
Deferred rent	50,318	42,144
Restitution payable	48,172	48,172
Reserve for seized cigarette revenues	229,988	222,276
Reserve for software	13,416	20,093
Reserve for automobile replacement	2,551	744
Reserve for expenses	5,000	5,000
TOTAL LIABILITIES	<u><u>\$ 1,392,453</u></u>	<u><u>\$ 1,570,734</u></u>

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

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

ADDITIONS	<u>2021</u>	<u>2020</u>
Cigarette tax collected		
Wholesalers	\$ 11,541,810	\$ 12,662,200
Vendors	86	2,203
Miscellaneous income	6,921	7,400
Sale of cigarette seizures	7,712	6,558
Interest	217	195
TOTAL ADDITIONS	<u>11,556,746</u>	<u>12,678,556</u>
 DEDUCTIONS		
Distributions to jurisdictions	10,650,709	11,804,686
Administration expenses		
Payroll	533,463	506,561
Retirement contribution	149,307	136,993
Rent	63,048	63,136
Medical insurance	62,944	52,378
Professional services	20,923	18,604
Computer services	18,573	25,362
Depreciation	13,876	9,940
Tax stamps	12,210	24,420
Telephone	8,346	8,344
Social Security	7,219	6,927
Bond and insurance	5,669	5,616
Office supplies	2,920	3,177
Disability plan	2,217	2,089
Vehicle repair	1,193	1,436
Life insurance	1,121	1,165
Automobile expense	1,052	1,131
Postage	854	859
Miscellaneous	600	1,387
Bank fees	273	275
Unemployment insurance	132	-
Printing	97	1,921
Office equipment	-	2,149
TOTAL DEDUCTIONS	<u>11,556,746</u>	<u>12,678,556</u>
 CHANGE IN FIDUCIARY NET POSITION	<u>\$ -</u>	<u>\$ -</u>

NORTHERN VIRGINIA CIGARETTE TAX BOARD FAIRFAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Financial Statement Presentation

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

Basis of Accounting

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

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Cigarette Tax Revenue Receivable

Cigarette tax revenue receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables related to non-exchange transactions are recognized when their eligibility requirements have been met. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2021 and 2020, and no allowance for doubtful accounts has been provided. Bad debt expense for the fiscal years ended June 30, 2021 and 2020, were \$-0- and \$-0-, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

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

Seized Cigarettes Inventory

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

Capital Assets

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

Concentration of Credit Risk

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

Use of Estimates

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

Advertising Costs

Advertising costs are expensed as incurred.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

	<u>2021</u>	<u>2020</u>
Demand deposits, interest bearing	\$356,193	\$295,842
Petty cash	<u>100</u>	<u>100</u>
Total	<u>\$356,293</u>	<u>\$295,942</u>

All demand deposits are held by the Board or in the Board's name, and are completely covered by Federal depositary insurance or collateralized by the financial institution acquiring the deposit. The carrying amount of the deposits as of June 30, 2021 and 2020, were \$356,193 and \$295,842 respectively, and the bank balance as of June 30, 2021 and 2020, were \$368,573 and \$320,871, respectively. Accordingly, the deposits of the Board are considered to be insured.

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

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

NOTE 3 – CAPITAL ASSETS

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

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

Capital assets activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets being depreciated				
Furniture and Equipment	\$ 34,021	\$ 12,063	\$ -	\$ 46,084
Software	19,907	-	-	19,907
Vehicles	<u>57,712</u>	<u>26,904</u>	<u>-</u>	<u>84,616</u>
Total Depreciable Assets	<u>111,640</u>	<u>38,967</u>	<u>-</u>	<u>150,607</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	10,281	7,698	-	17,979
Vehicles	<u>57,712</u>	<u>2,242</u>	<u>-</u>	<u>59,954</u>
Total accumulated depreciation	<u>67,993</u>	<u>9,940</u>	<u>-</u>	<u>77,933</u>
Depreciable Assets, Net	\$ <u>43,647</u>	\$ <u>29,027</u>	\$ <u>-</u>	\$ <u>72,674</u>

NOTE 4 – UNDISTRIBUTED RECEIPTS

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

	<u>2021</u>	<u>2020</u>
Wholesalers	\$28,669	\$25,332
Manufacturers	4,012	4,012
Vendors	<u>1,637</u>	<u>1,637</u>
Total	<u>\$34,318</u>	<u>\$30,981</u>

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

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

NOTE 5 – COMPENSATED ABSENCES

All employees of the Board accrue both annual and sick leave each month. Annual leave is accumulated based on years of service and number of paid hours each work week. There is no maximum amount of annual leave that employees can accumulate; however, only 320 hours per calendar can be carried over to the next year. When employees leave Board employment, they are paid for any unused annual leave. Full-time employees accrue sick leave at the rate of eight hours per month, and part-time employees accrue sick leave at the rate of one and one-half hours per month. There is no maximum amount of sick leave that employees can accumulate. When an employee retires, resigns, dies or is laid off after a minimum of five years of continuous Board service, the employee or his estate is entitled to 30% of his/her accumulated sick leave in excess of 100 hours. As of June 30, 2021 and 2020, the liability for compensated absences were \$95,312 and \$75,352, respectively.

NOTE 6 – RESTITUTION PAYABLE

In 2010, three individuals plead guilty in Fairfax County court to conspiracy to possess and distribute contraband cigarettes and were ordered to pay Fairfax County restitution totaling \$151,120. The restitution payments are made to the Board, and the Board has been asked to collect all funds before transferring the payments to Fairfax County. As of June 30, 2021 and 2020, the Board collected a total of \$48,172 and \$48,172, respectively.

NOTE 7 – PENSION PLAN

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

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

Pension expense for the years ended June 30, 2021 and 2020 were \$149,307 and \$136,993, respectively.

NOTE 8 – ICMA RETIREMENT CORPORATION 457 PLAN

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

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

**NOTES TO FINANCIAL STATEMENTS
(Concluded)**

NOTE 9 – LEASES AND SUBSEQUENT EVENTS

The Board leases office space in Chantilly, Virginia, under a 15-year operating lease which expires September 30, 2034. The lease calls for an annual rent increase of 2.75% and included rental abatement of 7 and one-half months. Under accounting principles generally accepted in the United States of America all rental payments, including fixed rent increases and rental abatement, are recognized on a straight-line basis over the term of the lease. The difference between the straight-line rent expense and the required lease payments is reflected as a deferred rent liability in the accompanying statements of fiduciary net position.

Rental expense for operating leases for the years ended June 30, 2021 and 2020, were \$63,048 and \$63,136, respectively.

Future minimum rental payments under this lease are as follows:

Years ending June 30,	
2022	\$ 56,051
2023	57,592
2024	59,176
2025	60,803
2026	62,475
Thereafter	<u>585,323</u>
Total minimum lease payments	<u>\$881,420</u>

NOTE 10 – UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Board's revenues. Other financial impact could occur though such potential impact is unknown at this time.

NOTE 11 – EVALUATION OF SUBSEQUENT EVENTS

The Board has evaluated subsequent events through January 24, 2022, the date which the financial statements were available to be issued.

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the fiduciary activities and the aggregate remaining fund information of the Northern Virginia Cigarette Tax Board as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Northern Virginia Cigarette Tax Board's basic financial statements, and have issued our report thereon dated January 24, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Virginia Cigarette Tax Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dunbar, Fulkerson & Rhodes, PLLC". The signature is written in a cursive, flowing style.

Certified Public Accountants
Chantilly, Virginia

January 24, 2022

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

Member Jurisdictions	<u>2021</u>	<u>2020</u>
Fairfax County	\$ 4,947,032	\$ 5,428,504
City of Alexandria	2,168,053	2,340,145
Town of Leesburg	623,774	671,951
City of Manassas	551,688	572,961
City of Fairfax	518,370	566,145
City of Fredericksburg	497,625	748,690
Town of Purcellville	222,166	217,575
City of Manassas Park	221,598	236,117
Town of Vienna	207,033	185,378
City of Falls Church	193,151	225,048
Town of Herndon	178,772	209,757
Town of Dumfries	178,716	180,594
Town of Warrenton	151,885	172,607
Town of Haymarket	134,996	142,370
Town of Round Hill	29,134	28,257
Town of Lovettsville	22,361	20,403
Town of Middleburg	19,959	21,728
Town of Clifton	1,456	2,119
Town of Hillsboro	316	1,348
Total Distributions to Member Jurisdictions	<u>\$ 10,868,085</u>	<u>\$ 11,971,697</u>

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

	2021			2020		
	(Budgetary - Cash Basis)		Variance	(Budgetary - Cash Basis)		Variance
	Approved Budget	Actual Expenses	Favorable (Unfavorable)	Approved Budget	Actual Expenses	Favorable (Unfavorable)
Payroll	\$ 500,000	\$ 513,503	\$ (13,503)	\$ 500,000	\$ 494,639	\$ 5,361
Retirement contribution	149,000	149,307	(307)	134,000	136,993	(2,993)
Medical insurance	60,000	62,944	(2,944)	59,000	52,378	6,622
Rent	48,000	50,351	(2,351)	47,000	25,515	21,485
Computer services	20,000	25,249	(5,249)	20,000	25,362	(5,362)
Tax stamps	28,000	12,210	15,790	28,000	24,420	3,580
Professional services	8,000	13,538	(5,538)	8,000	18,104	(10,104)
Telephone	7,000	8,346	(1,346)	7,000	8,344	(1,344)
Social Security	7,500	7,219	281	7,300	6,927	373
Bond and insurance	5,900	5,669	231	5,700	5,616	84
Office supplies	3,000	2,681	319	3,000	3,177	(177)
Disability plan	2,200	2,217	(17)	2,000	2,089	(89)
Vehicle repair	3,000	1,193	1,807	3,000	28,340	(25,340)
Life insurance	1,500	1,121	379	1,500	1,165	335
Automobile expense	6,000	1,052	4,948	6,000	1,131	4,869
Postage	1,500	854	646	2,000	859	1,141
Miscellaneous	1,000	600	400	1,000	1,387	(387)
Bank fees	-	273	(273)	-	275	(275)
Unemployment insurance	300	132	168	300	-	300
Printing	500	97	403	500	1,921	(1,421)
Office equipment	6,000	-	6,000	6,000	14,211	(8,211)
Retirement plan maintenance	3,000	-	3,000	3,000	-	3,000
Office equipment repair	500	-	500	500	-	500
Travel	-	-	-	3,500	-	3,500
Training and development	-	-	-	3,000	-	3,000
Total Expenses	<u>\$ 861,900</u>	<u>\$ 858,556</u>	<u>\$ 3,344</u>	<u>\$ 851,300</u>	<u>\$ 852,853</u>	<u>\$ (1,553)</u>

Reconciliation of financial statements prepared under
generally accepted accounting principles:

Total administration expenses - budgetary basis	\$ 858,556	\$ 852,853
Increase in compensated absences	19,960	11,922
Depreciation expense not budgeted	13,876	9,940
Vehicle and equipment purchases	(6,676)	(38,966)
Increase in accounts payable	7,624	500
Deferred rent accrual	8,174	42,144
Decline/(Increase) in prepaid rent	4,523	(4,523)
Total administration expenses under generally accepted accounting principles	<u>\$ 906,037</u>	<u>\$ 873,870</u>