To the Honorable Mayor and Members of Council
Town of Leesburg, Virginia

In connection with our audit of the financial statements of the Town of Leesburg, Virginia (Town) for the year ended June 30, 2014, we have the following comments and suggestions for your consideration.

During the course of our audit, we discovered an item we consider to be a control deficiency that should be communicated to Council.

Audit Adjustments

During our audit of the Town we proposed three audit adjustments related to debt and capital assets. Two areas in which the individuals performing those tasks had minimal previous experience. We believe these adjustments were the result of personnel turnover within the Department of Finance and Administrative Services. During times of transition it is important to monitor all financial transactions to ensure transactions are accounted for appropriately. We recommend the Town consider providing cross-training to individuals within the Department of Finance and Administrative Services to ensure all financial reporting can be handled appropriately during times of transition.

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Guidance at 2 CFR 200

In response to the November 23, 2009 Executive Order on Reducing Improper Payments and the February 28, 2011 Presidential Memorandum on Administrative Flexibility, Lower Costs, and Better Results for State, Local and Tribal Governments, the President directed the Office of Management and Budget (OMB) to work with Executive Branch agencies; state, local, and tribal governments; and other key stakeholders to evaluate potential reforms to Federal grants policies. As a result, the Council on Financial Assistance Reform (COFAR) was established in October 2011 and led to several efforts to improve delivery, management, coordination, and accountability of Federal grants and cooperative agreements, which includes the development of uniform guidance.

This reform will impact Federal agencies, non-Federal entities (states, local governments, Indian tribes, institutions of higher education, and nonprofit organizations) that receive Federal awards as a recipient or subrecipient, and their auditors. In the current audit period and up to the required effective date of the new guidance, these agencies and entities have followed the guidance for Federal awards, under OMB Circular A-133; however, this new guidance will supersede the previous guidance, and is commonly being referred to as the "Super Circular."

Previous OMB Circulars combined into the new Super Circular include:

- Cost Principles Circulars A-21 for Education Institutions; A-87, for State & Local Governments; and A-122 for Non-Profit Organizations
- Circular A-89, Catalog of Federal Domestic Assistance
- Administrative Requirements Circulars A-102, for State and Local Governments; A-110 for Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- Circulars A-133, Single Audit Guidance and A-50, Audit Follow-up.

The intended impact of this reform can be observed through the following list of efforts to reduce administrative burden and risk of waste, fraud, and abuse:

- Eliminating duplicative and conflicting guidance through combining eight previously separate sets of OMB guidance into one.
- Focusing on performance over compliance for accountability by expanding options for fixed amounts awards based on meeting performance milestones, and streamlining reporting requirements to focus on high standards for internal controls with flexibility for non-Federal entities in how they meet the standards.
- Encouraging efficient use of information technology and shared services.
- Providing for consistent and transparent treatment of costs by updating policies on indirect costs to reduce administrative burden through consistency of treatment government wide, as well as clarification of allowable direct charges for administrative expenses and contingency costs.
- Limiting allowable costs to make the best use of Federal resources, through strengthened language in identified areas.
- Setting standard business processes using data definitions.
- Encouraging non-Federal entities to have family-friendly policies, to allow for workplace flexibility, in an effort to foster better work environments.
- Strengthening oversight of Federal agencies and pass-through entities, including making better use of available audit information where appropriate.
- Targeting audit requirements on risk of waste, fraud, and abuse by strengthening existing requirements for reliance on the work of the Single Audit; improving transparency and accountability by making single audit reports available publicly, online, and encouraging agencies to take a cooperative approach to resolution of underlying weaknesses in internal controls; and targeting oversight resources where the most Federal dollars are at risk by raising the threshold for single audit requirement from $500,000 to $750,000, covering over 99% of the funds currently covered while eliminating the requirement for approximately 5,000 entities and saving the government an estimated $250 million per year.

The new uniform guidance becomes effective for audits of non-Federal entity fiscal years beginning on or after December 26, 2014. Additionally, the administrative requirements and costs principals will apply to new awards and additional funding (funding increments) to existing awards made after December 26, 2014. Existing Federal awards will continue to be governed by the terms and conditions of the Federal award. All non-Federal entities should make available access to the terms and conditions of Federal awards made prior to the uniform guidance becoming effective, to ensure full compliance.

Additional information and Frequently Asked Questions can be found on the Council on Financial Assistance Reform's (COFAR) website. We strongly encourage Town staff to be familiar with these changes, and educate the departments receiving and responsible for compliance with the Federal awards, in an effort to develop policies and procedures deemed necessary to achieve and maintain compliance with the new standards.

New GASB Pronouncements

GASB Statement No. 68*, Accounting and Financial Reporting for Pensions*

The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. Statement No. 68 and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. The Town is classified in the following category for purposes of this Statement:

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer’s share of the pooled assets is legally available to pay the benefits of only its employees.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The requirements of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014.

The table below represents the effect to unrestricted net position had GASB Statement No. 68 been implemented in fiscal year 2014:

Unrestricted net position	$	27,359,972
Net pension obligation (June 30, 2013)		(19,071,167)
Restated unrestricted net position	$	8,288,805

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68*

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Status of Prior Year Comments

We made several comments in the prior year's management letter where matters deemed to be intended for consideration were cited. The Town has made the recommended changes per our review. We appreciate management's continued cooperation in incorporating these suggestions.

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This report is intended solely for the information and use of management, Town Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items, or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2014 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

Harrisonburg, Virginia
December 3, 2014