

**TOWN OF LEESBURG, VIRGINIA**

**REPORT TO TOWN COUNCIL**

**DECEMBER 8, 2014**



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

We are pleased to present this report related to our audit of the basic financial statements and compliance of the Town of Leesburg, Virginia (Town) for the year ended June 30, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Town's financial and compliance reporting process.

This report is intended solely for the information and use of Town Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Town.

PBMares, LLP

Harrisonburg, Virginia  
December 8, 2014

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# TOWN OF LEESBURG, VIRGINIA

## REQUIRED COMMUNICATIONS Year Ended June 30, 2014

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit and compliance reporting process, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and compliance reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement and Compliance Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America; <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States; the provisions of the Single Audit Act, OMB Circular A-133 and OMB's Compliance Supplement; and <i>Specifications for Audits of Counties, Cities, and Towns</i> provided by the Auditor of Public Accounts of the Commonwealth of Virginia have been described to you in our arrangement letter dated July 15, 2014.
<b>Overview of the Planned Scope and Timing of the Financial Statement and Compliance Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
<b>Accounting Policies and Practices</b>	<b>Preferability of Accounting Policies and Practices</b>  Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.
	<b>Adoption of, or Change in, Accounting Policies</b>  Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The Town adopted GASB Statement No. 65, <i>Item Previously Reported as Assets and Liabilities</i> , GASB Statement No. 67, <i>Financial Reporting for Pension Plans</i> , an amendment of GASB Statement No. 25, GASB Statement No. 69, <i>Government Combinations and Disposals of Government Operations</i> , and GASB Statement No. 70, <i>Accounting and Financial Reporting for Nonexchange Financial Guarantees</i> , during the current year.  During the fiscal year ended June 30, 2014, restatement of beginning net position was necessary for the adoption of GASB Statement No. 65. The Town wrote-off bond issuance costs previously required to be capitalized and amortized over the life of the bonds.

**TOWN OF LEESBURG, VIRGINIA**

**REQUIRED COMMUNICATIONS (Continued)  
Year Ended June 30, 2014**

<b>Area</b>	<b>Comments</b>
<b>Accounting Policies and Practices (Continued)</b>	<b>Significant or Unusual Transactions</b>  We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.  <b>Management's Judgments and Accounting Estimates</b>  Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates."
<b>Audit Adjustments</b>	Audit adjustments proposed by us and recorded by the Town are shown in the attached "Summary of Recorded Audit Adjustments."
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of material written communications between our firm and management of the Town, including the representation letter provided to us by management, are attached.

**TOWN OF LEESBURG, VIRGINIA**

**SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES  
Year Ended June 30, 2014**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Town’s June 30, 2014 financial statements:

<b>Area of Estimate</b>	<b>Accounting Policy</b>	<b>Management’s Estimation Process</b>	<b>Basis for Our Conclusion on Reasonableness of Estimate</b>
Capital Assets	Estimated lives of depreciable and amortizable assets	Management assigns lives to assets purchased or constructed internally based on the expected useful life of those assets or the product associated with those assets.	While these estimates are based on historical information, management should continue to monitor the lives assigned to the Town’s assets to ensure the recovery period of these costs are accurate.
	Fair value of donated property	Management assigns value to property donated to the Town based on the fair value of the asset at the time of donation.	While these values are based on historical financial information, management should continue to evaluate recorded values to ensure the assets are accurately represented.
Unbilled Water and Sewer Receivable	Estimated water and sewer revenue	Management records water and sewer receivables based on the subsequent billings for that district.	While these estimates are based on sound financial information, management should monitor these estimates and compare the actual billings and usage to ensure the accuracy of these estimates.
Pension Liability and Other Postemployment Benefits	Pension and OPEB liabilities and costs for financial accounting and disclosure purposes	Management recognizes pension and OPEB liabilities based on market trends and industry standards.	While these estimates are based on assumptions provided by market trends and industry standards, and reported to you by contracted actuaries, management should monitor these estimates and compare to actual costs over time.

**TOWN OF LEESBURG, VIRGINIA**

**SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)**  
**Year Ended June 30, 2014**

<b>Area of Estimate</b>	<b>Accounting Policy</b>	<b>Management's Estimation Process</b>	<b>Basis for Our Conclusion on Reasonableness of Estimate</b>
Receivables	Allowance for doubtful accounts	Management records an allowance for uncollectible accounts based on an analysis of historical write-offs and collections to arrive at an overall assessment of whether past due accounts will be collected.	While these estimates are based on sound financial information, management should monitor these estimates and compare the actual collections of these revenues to ensure the accuracy of these estimates.

**TOWN OF LEESBURG, VIRGINIA**

**Summary of Recorded Audit Adjustments - Governmental Activities  
Year Ended June 30, 2014**

<b>Description</b>	<b>Increase (Decrease)</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Revenue</b>	<b>Expenditures</b>
To adjust accrued interest to actual at year end.	\$ -	\$ (406,469)	\$ 406,469	\$ -	\$ (406,469)
To capitalize costs associated with Edwards Ferry to Fort Evans road project - credits paid.	322,865	-	322,865	-	-
Income statement effect				<u>\$ -</u>	<u>\$ (406,469)</u>
Statement of Net Position effect	<u>\$ 322,865</u>	<u>\$ (406,469)</u>	<u>\$ 729,334</u>		

**TOWN OF LEESBURG, VIRGINIA**

**Summary of Recorded Audit Adjustments - Business-type Activities  
Year Ended June 30, 2014**

<b>Description</b>	<b>Increase (Decrease)</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Revenue</b>	<b>Expenses</b>
To adjust accrued interest to actual at year end.	\$ -	\$ 345,222	\$ (345,222)	\$ -	\$ 345,222
Income statement effect				<u>\$ -</u>	<u>\$ 345,222</u>
Statement of Net Position effect	<u>\$ -</u>	<u>\$ 345,222</u>	<u>\$ (345,222)</u>		

## **ARRANGEMENT LETTER**



RECEIVED

JUL 17 2014

July 15, 2014

Town of Leesburg  
Town Manager

To the Town Council  
Town of Leesburg, Virginia  
Leesburg, Virginia 20178

Attention: John A. Wells, Town Manager

### **The Objective and Scope of the Audit of the Financial Statements**

You have requested that we audit the financial statements of the Town of Leesburg, Virginia's (Town), governmental activities, business-type activities, each major fund, and remaining fund information as of and for the year ended June 30, 2014, which collectively comprise the basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing opinions on the financial statements.

We will also perform the audit of the Town as of June 30, 2014, so as to satisfy the audit requirements imposed by the Single Audit Act and the U. S. Office of Management and Budget (OMB) Circular No. A-133.

### **The Responsibilities of the Auditor**

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Single Audit Act, OMB Circular A-133, OMB's Compliance Supplement, and the *Specifications for Audits of Counties, Cities and Towns*, provided by the Auditor of Public Accounts for the Commonwealth of Virginia. Those standards, circular, supplement, and specifications 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect fraud or errors that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the Town'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 Town's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the Town Council (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds that you have told us are maintained by the Town and that are to be included as part of our audit are listed here:

- General Fund
- Capital Projects Funds
- Enterprise Fund:
  - Water and Sewer Fund
- OPEB Trust Fund

No component unit financial statements are to be included in the Town's basic financial statements.

The federal financial assistance programs and awards that you have told us that the Town participates in and that are to be included as part of the Single Audit are listed on Attachment A.

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards, circular, supplement, and specifications identified above. Our reports on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement, or loan program questioned costs of which we become aware, consistent with requirements of the standards, circular, supplement, and specifications identified above.

### **The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework**

Our audit will be conducted on the basis that management and when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;

- c. For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
- d. For (a) making us aware of significant vendor relationships where the vendor is responsible for program compliance, (b) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings, and a corrective action plan, and (c) report distribution including submitting the reporting package(s); and
- e. To provide us with:
  - (1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - (2) Additional information that we may request from management for the purpose of the audit;
  - (3) Unrestricted access to persons within the Town from whom we determine it necessary to obtain audit evidence;
  - (4) When applicable, a summary schedule of prior audit findings for inclusion in the Single Audit reporting package; and
  - (5) If applicable, responses to any findings reported on the Schedule of Findings and Questioned Costs.

As part of our audit process, we will request from management and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

- a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
- b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that the Town complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the Town involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the Town received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the required supplementary information (RSI) and supplementary information presented in relation to the financial statements as a whole in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the RSI and supplementary information in any document that contains the RSI and supplementary information and that indicates that the auditor has reported on such RSI and supplementary information. Management also agrees to present the RSI and supplementary information with the audited financial statements or, if the RSI and supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the RSI and supplementary information no later than the date of issuance of the RSI and supplementary information and the auditor's report thereon.

The Town Council is responsible for informing us of its views about the risks of fraud or abuse within the Town, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the Town.

Our association with an official statement is a matter for which separate arrangements may be necessary. The Town agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Town seeks such consent, we will be under no obligation to grant such consent or approval.

The Town agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the Town agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

#### **Town of Leesburg's Records and Assistance**

If circumstances arise relating to the condition of the Town's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Town's books and records. The Town will determine that all such data, if necessary, will be so reflected. Accordingly, the Town will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Town personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with your designee. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, such as drafting certain Exhibits and Footnotes found in the Financial Section and certain tables which are contained in the Statistical Section. The independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States (GAS) require that the auditor maintain independence so opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the Town, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit service to be performed. The Town has agreed that the Director of Finance possesses suitable skill, knowledge, and experience and the individual understands the non-audit services to be performed sufficiently to oversee them. Accordingly, the management of the Town agrees to the following:

1. The Town has designated the Director of Finance, a senior member of management, who possesses suitable skill, knowledge, and experience to oversee the services.
2. The Director of Finance will assume all management responsibilities for subject matter and scope of the non-audit services.
3. The Town will evaluate the adequacy and results of the services performed.
4. The Town accepts responsibility for the results and ultimate use of the non-audit services.

GAS further requires we establish an understanding with the management and those charged with governance of the Town of the objectives of the non-audit services, the services to be performed, the Town's acceptance of its responsibilities, the auditor's responsibilities, and any limitations of the non-audit services. We believe this letter documents that understanding.

#### **Other Relevant Information**

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report can be located on our website at [www.pbmares.com](http://www.pbmares.com).

### **Fees, Costs, and Access to Workpapers**

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Our fee for the services described in this letter will not exceed \$79,800 unless the scope of the engagement is changed, the assistance which the Town has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding and upon approval of both parties. All other provisions of this letter will survive any fee adjustment.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Town agrees it will compensate us for any additional costs incurred as a result of the Town's employment of any of our partners or professional employees.

In the event we are requested or authorized by the Town or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Town, the Town will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of PBMares, LLP. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of PBMares, LLP audit personnel and at a location designated by our Firm.

You have informed us that you intend to prepare a comprehensive annual financial report (CAFR) and submit it for evaluation by the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. Our association with the CAFR is to consist of replying to the GFOA's comments and ensuring the comments have been addressed in the current year CAFR.

### **Claim Resolution**

We and the Town agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the later of the date of the issuance of our audit report or the date of this arrangement letter if no report has been issued. The Town waives any claim for punitive damages. PBMares, LLP's liability for all claims, damages and costs of the Town arising from this engagement is limited to the amount of fees paid by the Town to PBMares, LLP for the services rendered under this arrangement letter.

In the event of a dispute related in any way to our services, we and the Town agree to discuss the dispute and, if necessary, try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. We and the Town consent to personal jurisdiction, both for mediation and/or litigation, of the Federal District Court, Eastern District of Virginia, sitting in Richmond, Virginia, or the Richmond Circuit Court. Participation in such mediation shall be a condition to either of us initiating litigation. In order to allow time for mediation, any applicable statute of limitations shall be tolled for a period not to exceed 120 days from the date either of us first requests in writing to mediate the dispute. The mediation shall be confidential in all respects, as allowed or required by law, except our final settlement positions at mediation shall be admissible in litigation solely to determine the prevailing party's identity for purposes of the award of attorney's fees.

The Town and we both agree that any dispute over fees charged by us will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. We both acknowledge that, in the event of a dispute over fees charged by us, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

If any term or provision of this Agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

### **Reporting**

We will issue a written report upon completion of our audit of the Town's financial statements. Our report will be addressed to the Mayor and Town Council of the Town. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph, or withdraw from the engagement.

In addition to our report on the Town's financial statements, we will also issue the following types of reports:

- A report on the fairness of the presentation of the Town's Schedule of Expenditures of Federal Awards for the year ended June 30, 2014.
- Reports on internal control related to the financial statements, and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.
- Reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a material effect on each major program.
- A schedule of findings and questioned costs.

Town of Leesburg, Virginia  
July 15, 2014  
Page 8 of 8

This letter constitutes the complete and exclusive statement of agreement between PBMares, LLP and the Town, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

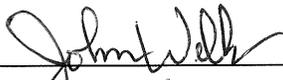
PBMares, LLP



Michael A. Garber, Partner

MAG/bds

Confirmed on behalf of the addressee:

  
\_\_\_\_\_  
7/21/14, 2014

TOWN OF LEESBURG, VIRGINIA

ATTACHMENT A

Federal Grantor/State Pass-Through Grantor/Program Title	Grant Number	Federal CFDA Number
<b>DEPARTMENT OF JUSTICE:</b>		
<u>Pass-through Payments:</u>		
<u>Virginia State Police</u>		
Internet Crimes Against Children Task Force		16.000
<u>Town of Vienna, Virginia</u>		
Gang Free Schools and Communities-Community Based Gang Intervention	2010-DD-BX-0483	16.544
<u>Direct Payments:</u>		
Bulletproof Vest Partnership Program		16.607
Byrne Justice Assistance Grant	2009-SB-B9-2382	16.738
<b>DEPARTMENT OF TRANSPORTATION:</b>		
<u>Direct Payments:</u>		
Airport Improvement Program		20.106
<u>Pass-through Payments:</u>		
<u>Virginia Department of Transportation</u>		
ARRA – Highway Planning and Construction		20.205

## **REPRESENTATION LETTER**

December 3, 2014

PBMares, LLP  
P. O. Box 1226  
Harrisonburg, Virginia 22803

This representation letter is provided in connection with your audit of the basic financial statements of the Town of Leesburg, Virginia (Town) as of and for the year ended June 30, 2014 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

### *Compliance Considerations*

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm management:

1. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
2. Has not identified any instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
3. Has not identified any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
4. Has not identified any instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
5. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.
6. Has a process to track the status of audit findings and recommendations.

In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we confirm:

7. We are responsible for complying, and we have complied, with the requirements of OMB Circular A-133.
8. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.
9. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
10. We have prepared the Schedule of Expenditures of Federal Awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants and federal cost-reimbursement contracts.
11. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the major program.
12. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
13. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.
14. We believe we have complied with the direct and material compliance requirements.
15. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for reimbursement.
16. We have provided you our interpretations of any compliance requirements that are subject to varying interpretations.
17. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.
18. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
19. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
20. We have charged costs to federal awards in accordance with applicable cost principles.

21. We have reviewed appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.

We confirm, to the best of our knowledge and belief, as of December 3, 2014, the following representations made to you during your audit:

### *Financial Statements*

22. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated July 15, 2014, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
23. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
24. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
25. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
26. We have disclosed all interfund transactions, including interfund transfers, which have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
27. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
28. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Net position and fund balance classifications.
  - b. The fair value of investments.
  - c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
  - d. Debt issue provisions.
  - e. Leases and material amounts of rental obligations under long-term leases.
  - f. The effect on the financial statements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment of GASB No. 68*, which have been issued, but which we have not yet adopted.
  - g. Deposits and investment securities categories of risk.

29. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
- a. The Town has no significant amounts of idle property and equipment.
  - b. The Town has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
  - c. Provision has been made to reduce applicable assets that have permanently declined in value to their realizable values.
  - d. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
30. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
  - b. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements, other than VRS, attributable to employee services rendered through June 30, 2014.
31. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a “potentially responsible party” by the Environmental Protection Agency in connection with any environmental contamination.
  - c. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.
  - d. Guarantees, whether written or oral, under which the Town is contingently liable.
  - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - f. Line of credit or similar arrangements.
  - g. Agreements to repurchase assets previously sold.
  - h. Security agreements in effect under the Uniform Commercial Code.

- i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
  - j. Liabilities which are subordinated in any way to any other actual or possible liabilities.
  - k. Debt issue repurchases options or agreements, or sinking fund debt repurchases ordinance requirements.
  - l. Significant estimates and material concentrations known to management which are required to be disclosed.
  - m. Authorized but unissued bonds and/or notes.
  - n. Risk financing activities.
  - o. Derivative financial instruments.
  - p. Special or extraordinary items.
  - q. Arbitrage rebate liabilities.
  - r. Impaired capital assets.
  - s. Risk retentions, including uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2014 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2014.
  - t. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
  - u. Material losses to be sustained as a result of purchase commitments.
  - v. Environmental clean-up obligations.
  - w. Investments, intangibles, or other assets which have permanently declined in value.
32. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
33. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.
34. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
35. The Town has satisfactory title to all owned assets.

36. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
37. Net position (net investment in capital assets, restricted and unrestricted) and fund balances are properly classified and, when applicable, approved.
38. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the Statement of Activities, and allocations have been made on a reasonable basis.
39. Revenues are appropriately classified in the Statement of Activities within program revenues and general revenues.
40. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated or amortized.
41. We have no knowledge of any uncorrected misstatements in the financial statements.

### *Information Provided*

42. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing body and committees of council, or summaries of actions of recent meetings for which minutes have not yet been prepared.
43. All transactions have been recorded in the accounting records and are reflected in the financial statements.
44. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
45. We have no knowledge of allegations of fraud or suspected fraud, affecting the Town's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
46. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements received in communications from employees, former employees, analysts, regulators, or others.

47. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
48. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
49. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Town's ability to record, process, summarize, and report financial data.
50. We have informed you of notices from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

### *Supplementary Information*

51. With respect to supplementary information presented in relation to the financial statements as a whole:
  - a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
52. With respect to the Management's Discussion and Analysis and Required Supplementary Information presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
53. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

TOWN OF LEESBURG, VIRGINIA

*Clark H. Case*

Clark Case  
Director of Finance and Administrative Services

12/3/2014  
Date Signed

*Eileen Nguyen*

Eileen Nguyen, Controller

12/3/2014  
Date Signed

*Kaj Dentler*

Kaj Dentler, Town Manager

12/3/2014  
Date Signed