CITY OF MANASSAS, VIRGINIA AND MANASSAS CITY PUBLIC SCHOOLS

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2016

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

Members of City Council
and School Board
City of Manassas, Virginia

In planning and performing our audit of the financial statements of the City of Manassas, Virginia and the Manassas City Public Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in circumstances for the purpose of expressing our opinion on the financial statements and to comply with any other applicable standards, such as Government Auditing Standards and the regulations set forth in the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. As discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

If material weaknesses or significant deficiencies were identified during our procedures they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included in the ***Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*** which should be read in conjunction with this report.

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Additionally, during our audit, we may have become aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detail review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that our suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. A review of the status of prior year comments and suggestions is included starting on page 7.

This communication is intended solely for the information and use of City Council, the School Board, management, and state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 29, 2016

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

USE OF PURCHASE CARDS - CITY AND SCHOOLS

Because controls over purchases made with purchase cards are generally less formal, and because often these transactions are conducted with vendors who may also sell consumer items, it can be difficult to detect unauthorized purchases. For this reason, the use of purchase cards tends to attract fraud and abuse. At most local governments, the controls over these purchases consist primarily of the requirement that invoices and receipts be provided for every transaction. This documentation is then reviewed and approved by the supervisor before being forwarded to the finance department for final approval for payment. Properly implemented, these are effective controls – however, their effectiveness is highly dependent upon the attention to detail, knowledge, and skepticism of those who are approving the payments. We suggest that management consider the following questions:

- How rigorous is the review of purchase card receipts and applicable store account invoices when they are submitted for approval – are they inspected closely for items that could be personal in nature?
- Does the person reviewing these documents maintain a skeptical attitude?
- Is such documentation being reviewed and approved by *appropriate* personnel? Such personnel should have sufficient knowledge about the department and its operations to allow them to identify and question unusual purchases.
- Are there appropriate offsetting reviews in cases where supervisors may be responsible for reviewing and approving purchase card and store account purchases, including those transactions conducted by the supervisor himself or herself?
- Are there appropriate limits on purchase cards and store accounts?
- Are there any such accounts which are unnecessary and which could be closed without hindering operations?

We are bringing these issues to your attention because these areas are susceptible to abuse, and because the quality of controls over these areas can be difficult to measure. In other words, the signature of one supervisor may indicate a thorough review of documentation, while the signature of another may signify only a cursory glance at the materials with no substantive review at all – a finance department will rarely know the difference. Because of these factors, we recommend that management review the questions above with those personnel who are involved in approving these transactions, and reinforce the importance of vigilance and attentiveness.

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION (Continued)

USE OF PURCHASE CARDS (Continued)

Specifically, we suggest consideration of the following controls:

- Restrict some cards for specific uses or vendors. For instance, usage could be limited to travel related expenses, or for vendors where emergency purchases are made. For travel related expenses, set limits for expenditures, such as with a per diem rate, and require employees to pay for any overages.
- Limit the number of cards issued to employees. For instance, issuance of cards could be restricted to department heads or senior staff.
- Perform background or credit checks on employees before issuance, and consider bonding employees with cards issued to them
- Other purchase cards should remain locked up until needed for use. A sign-out system could then be implemented whereby employees check out the cards when needed. Require prior written authorization before these cards are checked out or before purchase cards are used to make purchases. If a department has to have a card available at all times, have one card available at a centralized, controlled location to be checked out by only those who are on call.
- Limit the individuals authorized to request credit increases or additional cards.
- Have all statements mailed directly to the finance department. Require that employees submit original receipts for purchase card purchases to department heads for approval. Have department head submit approved, original receipts to the finance department for matching of supporting documentation to statements. Only pay statements that have been supported by approved, original supporting documentation. This function should be segregated from the issuance of purchase cards.
- Ensure that all receipts and other documentation are reviewed and approved by someone other than the individual making the purchases. This person should be knowledgeable about the department's purchasing needs.
- Set spending limits consistent with needs, such as by day, by card, or by transaction. Monitor cards for spending beyond such limits.

STATUS OF PRIOR YEAR COMMENTS

ACCOUNTS RECEIVABLE – ENTERPRISE FUNDS (Current Year and Prior Year Material Weakness) - CITY

During our review of enterprise accounts receivable detail and the allowance for doubtful accounts, we noted large balances for significantly aged accounts were still present in the general ledger with no corresponding allowance for doubtful account. Management noted that these balances represented uncollectible accounts. After further analysis, a material adjustment was required to eliminate old accounts receivable in several of the enterprise funds. The restatement of previously issued financial statements to reflect the identification and correction of a material misstatement is an indication of a material weakness not detected by the City's internal controls. We recommend the City record all amounts transferred to the "144" account as write- offs in order to avoid overstatement of accounts receivable. We also recommend the allowance for doubtful accounts, account aging detail and trends be examined periodically as these are important tools in evaluation of the collectability of accounts.

Current Status: *The allowance issue described above has been addressed and corrected by the City. A separate situation was discovered during the current year, however, related to the estimate for unbilled receivables in the Electric fund. This figure, due to an error with the system-generated report used to derive the estimate, was understated by a material amount in the prior and current years. In addition to having an employee in the Finance department perform the calculation for this amount, we recommend that a knowledgeable employee in the Utilities department perform a secondary review of the calculation and its source data for reasonableness.*

CAPITAL ASSETS (Current Year and Prior Year Material Weakness) - CITY

During FY 2015, the City began a rigorous process to identify and properly capture capital asset activity in both government activities and business-type activities. As a result of the internal review and the current year audit, a number of material adjustments were required to restate beginning net position as well as to reclassify balances capital asset categories. The restatement of previously issued financial statements to reflect the identification and correction of a material misstatement is an indication of a material weakness not detected by the City's internal controls. We recommend the City continue the procedures they have begun to help identify such issues and proceed with their plan to utilize capital asset tracking functions as part of their forthcoming enterprise resource planning software implementation. As a part of the implementation, we recommend management review the depreciable lives of assets to ensure such amounts match the expected recovery period, specifically on various Electric Fund assets. We also noted the City has not capitalized interest costs incurred as a part of the historical cost of capital assets in the enterprise funds. We recommend the City consider adopting procedures to account for such costs incurred in prior years and going forward.

Current Status: *This comment is still applicable due to a material audit adjustment required in the current year. However, it should be noted that significant strides have been made in the current year to improve the accuracy, clarity, consistency, and usability of the capital assets accounting records. Additionally, the City did calculate and record an adjustment to recognize capitalized interest in the current year.*

STATUS OF PRIOR YEAR COMMENTS (Continued)

AIRPORT TRANSACTIONS (Prior Year Material Weakness) - CITY

Material adjustments were required for items in the Airport Fund related to debt not previously recorded, recognition of insurance proceeds revenue related to prior years and accounting for revenue from monthly rental of hangars and leases. The restatement of previously issued financial statements to reflect the identification and correction of a material misstatement is an indication of a material weakness not detected by the City's internal controls. The Airport is also subject to unique requirements as promulgated by the Federal Aviation Administration which may have an impact on the financial reporting process. The City has regular communication with management at the Airport and we recommend the City continue to implement formal processes to ensure that all of the transactions are accurately captured, analyzed and recorded in the financial records on a timely basis.

Current Status: *No similar occurrences were noted during the current year's audit procedures. This comment appears to be mitigated.*

ACCOUNTS PAYABLE EXPENDITURES REVIEW - CITY

During our review of a sample of accounts payable disbursements, we noted one expenditure for a travel reimbursement that was not approved by a supervisor or by another individual before being paid. We recommend that another individual review and approve such expenditures for all employees, including senior management.

Current Status: *Based on a limited sample of selected items performed in the current year, this comment appears to be mitigated.*

PAYROLL MASTER FILE CHANGE LOG REVIEW - CITY

We noted during our review of the payroll process that changes to the payroll master file are not periodically reviewed. This presents a risk of unauthorized changes being made without being prevented or detected and corrected. We recommend that the list of changes to the payroll master file be periodically reviewed for reasonableness.

Current Status: *Based on a limited sample of selected items performed in the current year, this comment appears to be mitigated.*

MASTER VENDOR LIST REVIEW – CITY AND SCHOOLS

Changes to the master vendor file are not being periodically reviewed, which presents a risk for misappropriation of assets. We recommend the master vendor list be reviewed including any changes made, at least on a quarterly basis, and that review be documented. While performing the review, vendors that have not had activity for an extended period should be deactivated. The City represented during the audit that they hope to implement this procedure as a part of its new software implementation.

Current Status: *In the current year, the City reviewed and purged inactive vendors in advance of the upcoming enterprise resource planning software implementation, but no formal procedures have yet been implemented. The City plans to implement the above recommendation when the new software is operational. Based on a limited sample of selected items performed in the current year, this comment appears to be mitigated for the Schools.*

CAPITAL ASSETS – EVALUATION OF EXISTENCE AND USEFUL LIFE - SCHOOLS

Currently, listings of capital assets are not periodically routed to the appropriate departmental managers to determine whether or not the assets still physically exist. This increases the risks of capital assets being overstated and the gain or loss on sale of capital assets being improperly recorded. We recommend listings of capital assets be reviewed by the appropriate managers at least annually. We also recommend that, where significant and applicable, asset depreciable lives be considered and adjusted if necessary to reflect changes in the assets' useful lives. Department managers should consider these matters in their review of the capital asset listings and discuss with the finance department.

Current Status: *This comment is still applicable.*

SEGREGATION OF DUTIES – CITY

One of the more important aspects of any internal control structure is segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and not be prevented or detected. Specific items related to segregation of duties are discussed below:

- We noted that write-offs of utility billings could be performed by individuals in the City Utilities Division. These individuals also have the ability to prepare billings, collect receipts, post receipts into the utility software. The write-offs of utility billings should be limited to individuals with no access to cash. In addition, all utility billing write-offs should be approved by someone independent of the utility billing process, prior to the write-off occurring. Also, a detailed report should be generated that shows all utility billing write-offs for a specified period of time; this report should be approved on at least a monthly basis by an individual independent of the processes noted above.
- We noted individuals in the City Treasurer's office have the ability to write off customer accounts receivable amounts. These individuals also have the ability to collect and post receipts to the general ledger, prepare deposits and adjust property tax rolls. Where possible, we recommend the access to perform write offs and collection of cash be segregated. We also recommend a report of write-offs be reviewed by an individual independent of the collection and posting process on a periodic basis.
- We noted individuals in the Accounting Division, Treasurer's Office and Purchasing Division have access to initiate purchase orders and approve purchase orders and vendor invoices. Some of these individuals also have access to edit the master vendor file and can record vendor invoices into the system. We recommend where possible, access to the vendor master file be limited to individuals not responsible for entering invoices and to individuals without authority to approve invoices. We also recommend individuals with access to the check stock not have permissions to approve vendor invoices.

Current Status: *This comment is still applicable. The recommendations above are planned to be applied alongside the upcoming implementation of the new enterprise resource planning software.*

STATUS OF PRIOR YEAR COMMENTS (Continued)

INFORMATION TECHNOLOGY – LOGICAL ACCESS – USER ACCESS – CITY AND SCHOOLS

Per discussion with the IT Manager at both the City and Schools, it was determined that both the City and Schools have recently begun performing periodic access permissions for reasonableness, but there are no periodic reviews of the audit trails of users with elevated access permissions. Not reviewing user's audit trails could increase the risk of improper or unauthorized access. We recommend that the City and Schools implement a program of review of logs of administration activity. The City plans to examine the possibility of such review as a part of its new software implementation.

We noted one individual at the Schools who is responsible for the administration of access to applications also has access to the financial software. This access increases the risk of unauthorized transactions remaining undetected. We recommend such access be limited to only IT personnel. If management is unable to assign these tasks to someone without operational responsibility, then we recommend that the application administrators have two user IDs and passwords. The first would have only the permissions needed to complete their operational functions, and the second would give them administrative access. We also recommend that the administrator ID's activities be reviewed by an independent member of management on a regular basis.

Current Status: *This comment is still applicable.*

INFORMATION TECHNOLOGY – DISASTER RECOVERY - CITY

Per our review of documentation and through discussion with the IT Manager at the City, we determined there is no formal disaster recovery plan. Based on our discussions with these individuals, there are a variety of files and documents available for disaster recovery purposes, however, we recommend that the City develop, document, approve, implement and annually test a disaster recovery plan to ensure timely resumption of IT service in the event of an incident. The City has contracted with a new vendor as a part of its planned software implementation and plans to formally address backup and recovery.

Current Status: *This comment is still applicable.*

ACCOUNTING AND OTHER MATTERS
June 30, 2016

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

GASB STATEMENT NO. 74

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

This Statement replaces Statements No. 43, F*inancial Reporting for Postemployment Benefit Plans other than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures.*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

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

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 74 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 75

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

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.* Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

GASB Statement No. 75 will be effective for the year ending June 30, 2018.

GASB STATEMENT NO. 77

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. **GASB Statement No. 77**, *Tax Abatement Disclosures* is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

GASB STATEMENT NO. 77 (Continued)

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

GASB Statement No. 77 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 78

The objective of **GASB Statement No. 78**, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB Statement No. 78 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 79

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

GASB STATEMENT NO. 79 (Continued)

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB Statement No. 79 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* will improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining whether Certain Organizations are Component Units.*

GASB Statement No. 80 will be effective for the year ending June 30, 2018.

GASB STATEMENT NO. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* will improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB STATEMENT NO. 81 (Continued)

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split interest agreements can be created through trusts – or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements – in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 81 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 82

The objective of **GASB Statement No. 82**, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement No. 67, Statement No. 68, or Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

GASB STATEMENT NO. 82 (Continued)

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

GASB Statement No. 82 will be effective for the year ending June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects are as follows:

- ***Asset Retirement Obligations.*** The objective of this project would be to improve financial reporting by developing requirements on recognition for asset retirement obligations (ARO), other than landfills. The achievement of this objective would reduce inconsistency in current reporting and, therefore, enhance comparability between governments. The project also will improve the usefulness of information for decisions and analysis of various users of external financial reports of governments by developing disclosure requirements for AROs. An exposure draft document was issued in December 2015 with the comment period for the exposure draft, and the field test both ending on March 31, 2016. A final statement is expected in November 2016.

- ***Certain Debt Extinguishments Using Existing Resources.*** This project addresses certain issues identified during the pre-agenda research that evaluated the effectiveness of Statements No. 7, *Advance Refundings Resulting in Defeasance of Debt*, and No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, and relevant sections of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The project will consider improvements to the existing guidance related to debt extinguishments using existing resources. Debt extinguishments connected with troubled debt restructurings and bankruptcy, which are addressed in other pronouncements, are not included. An exposure draft is expected in August 2016, with a final statement in May 2017.

- ***Conceptual Framework – Recognition.*** The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. Deliberations recommenced in conjunction with the Financial Reporting Model project in October 2015.

CURRENT GASB PROJECTS (Continued)

- ***Fiduciary Responsibilities.*** The primary objective of this project would be to develop guidance regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their general purpose external financial reports. Other objectives of this project include assessing whether additional guidance should be developed to (1) clarify the difference between a private-purpose trust fund and an agency fund, (2) clarify whether a business-type activity engaging in fiduciary activities should present fiduciary fund financial statements, and (3) consider requiring a combining statement of changes in assets and liabilities for agency funds. An exposure draft document was issued for public comment in December 2015 with the comment period ending March 31, 2016. A final statement is expected in December 2016.
- ***Financial Reporting Model.*** The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. The project is currently in deliberations with an exposure draft expected in December 2019, with a final statement in May 2021.
- ***Lease Accounting – Reexamination of NCGA Statement 5 and GASB Statement No. 13.*** The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether current operating leases meet the definitions of assets or liabilities. This project would provide an opportunity for a fresh look at the existing guidance for any improvements not contemplated by the FASB/IASB project given the unique nature of governmental entities and the complexities of their leasing transactions. An exposure draft document was issued for public comment in January 2016 and the comment period ended May 31, 2016. A final statement is expected in December 2016.
- ***Revenue and Expense Recognition.*** The objective of this project is to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that has not been specifically addressed in the current literature. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. The project is currently in deliberations, with a final statement expected in June 2022.

ACCOUNTING AND OTHER MATTERS
June 30, 2016

STATEMENTS OF ECONOMIC INTERESTS

The Virginia Conflict of Interest and Ethics Advisory council has implemented a $250 late filing penalty for Statement of Economic Interest (SoEI) filers. This late fee will apply to all SoEI's filed after each filing deadline, June 15 and December 15. The late filing penalty does not apply to financial disclosure filers. Late filing lists should be submitted to the local Commonwealth attorney who will assess and collect the penalty from each individual who is late or does not file.