TOWN OF VINTON, VIRGINIA

REPORT ON COMMENTS AND SUGGESTIONS, ACCOUNTING AND OTHER MATTERS, AND REQUIRED COMMUNICATIONS

June 30, 2016

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT
ON COMMENTS AND SUGGESTIONS

To the Members of Town Council
Town of Vinton, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Vinton, Virginia (the "Town") 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 the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements and to comply with *Government Auditing*, but not for the purpose of expressing opinions on the effectiveness of the Town's internal control. Accordingly, we do not express opinions on the effectiveness of the Town'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 the 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. However, as presented in this letter, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. Since our audit is not designed to include a detailed 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 our prior year comments and suggestions is included on pages 6 through 7.

The Town's responses to our recommendations are included in this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 18, 2016

COMMENTS AND SUGGESTIONS

WATER AND SEWER ADJUSTMENTS AND WRITE-OFFS (Part of Segregation of Duties – Material Weakness)

We noted that the Town does not currently have a formal process to periodically generate and review write-offs and adjustments. There is a compensating control in place; the employee who initiates the adjustment does not have system access to post the adjustment. However, we recommend that an employee in an oversight position, who does not initiate or post the adjustment or write-off, generate a monthly report showing each entry and review the detail to ensure the accuracy and appropriateness of each transaction.

Management Response: *The Town previously had this control in place, but at some point it time, this process was no longer performed. The Town will implement this control going forward.*

PRIOR YEAR COMMENTS AND SUGGESTIONS

SEGREGATION OF DUTIES (Current and Prior Year Material Weakness)

Internal controls are designed to safeguard assets and detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Town's accounting staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the Town Clerk. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advice, could be forwarded to the accounting staff for postings to the general ledger and detail customer accounts.
- Customer complaints, returned checks, disputed items, and other such matters should be investigated by someone who is independent of preparing daily cash receipts and preparing deposits.
- Checks and remittance advice should be placed into envelopes and mailed by someone with no other accounting responsibilities.
- Water and sewer billing should be independent of the accounts receivable function.
- Checks are printed and mailed by the person entering invoices into the accounting software for payment. Checks are printed with electronic signatures. Check printing and mailing should be performed by someone who does not have any other accounts payable functions.

Current Year Status: *Conditions are still present.*

Management Response: *Management indicated that mail being sorted and delivered to the Treasurer's Office by the Town Clerk may be an option, but will not be receipted and deposited by the Town Clerk. Customer complaints, returned checks, and disputed items being investigated by someone independent of preparing daily cash receipts is limited by the small staff in the Treasurer's Office. Checks and remittance advice for accounts payable items are reviewed before mailing by two individuals signing for the checks. With the limited staffing and the job responsibilities within the office, all staff members have accounting responsibilities. Water and Sewer billings are reviewed by the Treasurer. A lock has been placed into the system where the four individuals that have check signing responsibilities are required to authorize the accounts payable before the Financial Analyst can proceed to print checks. Checks have electronic signatures on them but still require a two person sign-off on a control sheet verifying check numbers and check dates. Delegation of responsibilities within the Finance department is limited by the staffing. Management will segregate these functions as much as possible.*

SEGREGATION OF DUTIES (Current and Prior Year Material Weakness) (Continued)

Employee setup and maintenance in the accounting software is being performed by Human Resources, but at times, the Finance Department is involved with employee maintenance in the accounting software. All employee setup and maintenance should be handled by the Human Resource Department. The Finance Department should not have access to make changes to employee information, and should be responsible for reviewing the payroll change log to ensure completeness and accuracy.

Current Year Status: *Employee maintenance and setup condition cleared with the Town's hiring of the Human Resources Specialist. Per inquiry with management, the payroll change log report is being reviewed by the finance department regularly but there is no date or initials to verify this review. Due to the volume of the report, we recommend that each payroll change log report be saved as a PDF. The Director of Finance/Treasurer should insert a text box in the PDF with his initials and date to signify his review and also encrypt the PDF with a password to prevent manipulation of his review and approval.*

We noted that several employees have the ability to edit the master vendor file. Although there are compensating controls in place such as the review and purging of the vendor listing yearly, the review of vendors names during the check preparation process by multiple finance employees, and budget to actual variances, we recommend someone independent of the accounts payable function review the master vendor list periodically for new vendors added and also changes to vendor addresses. This review should include a verification of the vendor's validity. Additionally there should be a standard operating procedure in place to document the review.

Current Year Status: *Conditions are still present.*

FULLY DEPRECIATED CAPITAL ASSETS

We noted instances where fully depreciated assets continued to be depreciated in the accounting software. This error was caused by an option that was not selected in the software. We recommend that all capital asset inputs in the accounting software be reviewed for accuracy as well as care be used when entering in new additions.

Current Year Status: *Condition cleared during the current year*.

ACCOUNTING AND OTHER MATTERS

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.

ACCOUNTING AND OTHER MATTERS
(Continued)

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.

<u>GASB STATEMENT NO. 79</u> (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.

<u>GASB STATEMENT NO. 80</u>

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.

<u>GASB STATEMENT NO. 81</u>

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.

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.

GASB STATEMENT NO. 81 (Continued)

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.

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 (Continued)

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.
- ***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.

CURRENT GASB PROJECTS (Continued)

- ***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.

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.

REQUIRED COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

Honorable Members of Town Council
Town of Vinton, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Vinton, Virginia, collectively hereafter referred to as the "Town", for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 6, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are described below.

- Management's estimate of the useful lives of capital assets, the allowance for uncollectible accounts receivable, and the value of inventory are based on management's knowledge and judgment, which is based on historical review of capital asset usage, the collectability of aged accounts receivable, and lower of cost or market, respectively.
- Management's estimate of the annual required contribution, other post-employment benefits (OPEB) costs, and ultimate OPEB obligation are based on third-party actuarial calculations and assumptions that utilize census data provided by management.
- The net pension liability is based on an actuarial study provided by actuaries engaged by the Virginia Retirement System.

We evaluated the key factors and assumptions used to develop these estimates in determining that, except for the value of inventory, they are reasonable in relation to the financial statements taken as a whole.

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Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements include:

- Capital assets, long-term liabilities, defined benefit pension plan, other postemployment benefits, commitments and contingencies, major customer/taxpayer, and adoption of new standard and prior period restatement.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following misstatements, detected as a result of audit procedures and corrected by management, were deemed immaterial to the financial statements taken as a whole. All amounts are rounded to the nearest thousand.

<u>Corrected Adjustments</u>:

- $33,000 to increase interest expense and accrued interest to correct for an entity-wide entry that was incorrectly posted to the general fund.
- $96,000 to increase property taxes and decrease beginning fund balance in order to record three tax reconciliation adjusting journal entries from the prior year that were not recorded.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 18, 2016, a copy of which is attached.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Significant Audit Findings (Continued)

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 18, 2016

THE TOWN OF VINTON VIRGINIA

Town of Vinton
311 S. Pollard Street
Vinton, VA 24179
Phone (540) 983-0607
Fax (540) 983-0646

Barry W. Thompson
Town Manager

November 18, 2016

Brown, Edwards and Company, L.L.P.
Certified Public Accountants
319 McClanahan Street, S.W.
Roanoke, Virginia 24014-7705

This representation letter is provided in connection with your audits of the financial statements of Town of Vinton, Virginia (the "Town), which comprise the respective financial position of the governmental activities, the business-type activities, and each major fund as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to 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).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of November 18, 2016, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 6, 2016, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

3) 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.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

Financial Statements (Continued)

7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and responses.

8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

9) Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.

10) We have provided the planning communication letter to all members of those charged with governance as requested.

Information Provided

11) 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 and all audit or relevant monitoring reports, if any, received from funding sources, if applicable.

    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 Town Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14) We have no knowledge of any fraud or suspected fraud that affects the Town and involves:

    a) Management,

    b) Employees who have significant roles in internal control, or

    c) Others where the fraud could have a material effect on the financial statements.

15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.

16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18) We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

Government – Specific

19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us, if applicable.

Government – Specific (Continued)

21) We have a process to track the status of audit findings and recommendations, if applicable.

22) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

23) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if applicable.

24) The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

25) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.

26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe 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.

27) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

28) We have identified and disclosed to you all 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.

29) With the exception of the item noted in the CAFR as compliance finding 2016-1, there are no other violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

30) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes

31) We understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting information into a working trial balance based on management's chart of accounts.

32) The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

33) The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

34) The financial statements include all component units, if applicable as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

35) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.

36) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

Government – Specific (Continued)

37) Components of net position (net investment in capital assets; restricted; and unrestricted), and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

39) Provisions for uncollectible receivables have been properly identified and recorded.

40) Expenses 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.

41) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

42) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

43) Special and extraordinary items are appropriately classified and reported, if applicable.

44) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

45) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

46) We believe that the actuarial assumption and methods used to measure pension and OPEB liabilities and costs for financial accounting purposed are appropriate in the circumstances.

47) We have not completed the process of evaluating the impact that will result from adopting new Governmental Accounting Standards Board (GASBS) Statements that are not yet effective, as discussed in the notes to financial statements. The Town is therefore unable to disclose the impact that adopting these Statements will have on its financial position and the results of its operations when the Statements are adopted.

48) We agree with the findings of specialists in evaluating the accrual of pension and other post-employment retirement benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

49) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances, if applicable.

50) We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

51) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

52) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Government—Specific (Continued)

53) With respect to the supplementary information on which an in-relation-to opinion is issued.

   a) We acknowledge our responsibility for presenting the supplementary in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

   b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

54) Expenditures of federal awards were below the $750,000 threshold in the audit period, and we were not required to have an audit in accordance with Uniform Guidance.

55) We reaffirm the representations made to you in our letter dated November 9, 2015 regarding your audit for the fiscal year ended June 30, 2015.

Signature: Barry W. Thompson
Title: Town Manager/Treasurer

Signature: Anne W. Cantrell
Title: Interim Finance Director