



To the Honorable Members of the Board of Supervisors
County of Augusta, Virginia

In connection with our audit of the financial statements of the County of Augusta, Virginia (County) for the year ended June 30, 2017, we have the following comments and suggestions for your consideration.

School Board

Cafeteria Charges

The Augusta County School Board establishes school meal prices for each fiscal year. Meal prices are broken out between students and adults, as adults are charged a higher rate for meals. During the fiscal year 2017, student lunch rates were \$2.45 for elementary schools and \$2.70 for middle and secondary schools, whereas adult lunch rates were \$3.45 for all schools. Based on testing of meal charges during the current fiscal year, it was identified that there were several instances of adults being charged at the student rate. We recommend the School Board implement procedures to ensure that all employees are being charged the adult meal prices.

Cafeteria Budget

According to Section 15.2-2506, *Publication and notice; public hearing; adjournment; moneys not to be paid out until appropriated*, of the *Code of Virginia*, moneys shall not be paid out until there has been an appropriation for such expenditure by the governing body.

It was noted when performing fieldwork in the Cafeteria Fund that expenditures exceeded appropriations by approximately \$140,000. We recommend management evaluate budget to actual expenditures on an ongoing basis and make additional appropriation requests before actual expenditures exceed budgeted expenditures.

Status of Previous Management Advice

In our letter dated November 28, 2016, we recommended certain improvements in General Controls over the Information Technology Environment which have been partially implemented. In addition, the following recommendation was also included in our letter dated November 28, 2016 which has not yet been implemented:

Frank L. Matthews Testamentary (Private Purpose) Trust

Based on inquiry procedures performed during the audit, we were informed the balance recorded on the general ledger for the Matthews Private Purpose Training Trust includes only the amount of interest earned throughout past years on the original endowment. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the School Board is subject to guidelines, which provide rules on spending from endowment funds and permits the release of restrictions on the use and management of these funds.

We noted the School Board searched records and performed necessary inquiries in an effort to identify the principal balance of the endowment and record this amount as a nonexpendable asset, however, the original principal balance could not be identified. We recommend the School Board evaluate the treatment of this fund prospectively to determine the proper treatment, given that the original principal balance is unknown.

New GASB Pronouncements

At June 30, 2017, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the County. The statements which might impact the County are as follows:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 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 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.

The requirements of Statement No. 75 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible assets should recognize a liability based on the guidance in this Statement.

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The requirements of Statement No. 83 are effective for financial statements for fiscal years beginning after June 15, 2018.

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The requirements of Statement No. 84 are effective for financial statements for fiscal years beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017*

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of the County's financial statements.

The requirements of Statement No. 85 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. In financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

The requirements of Statement No. 86 are effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

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

If you have any questions concerning any of these items, or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2017 and express our appreciation to everyone for their cooperation during this engagement.

P. B. Mares, LLP

Harrisonburg, Virginia
November 27, 2017