

**TOWN OF CULPEPER, VIRGINIA**

**COMMENTS ON INTERNAL CONTROL AND  
OTHER SUGGESTIONS FOR YOUR  
CONSIDERATION**

**June 30, 2016**

This letter contains redacted information which refers to details of control weaknesses that were communicated to locality management and governance but are FOIAE under Code of Virginia §2.2-3705.2 due its sensitivity and description of security controls or mechanisms.

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS .....	3
CURRENT YEAR COMMENTS .....	5
STATUS OF PRIOR YEAR COMMENTS .....	6
ACCOUNTING AND OTHER MATTERS .....	10

## INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Honorable Members of Town Council  
Town of Culpeper, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the remaining fund information of the Town of Culpeper, 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 its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements and to comply with other applicable standards, such as *Government Auditing Standards* and the regulations set forth by the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion 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 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.

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 Town'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.

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 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 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 prior year comments and suggestions is included on page 6.

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.

This report is intended solely for the information and use of Town Council, management, and state and federal regulatory agencies 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 1, 2016

**TOWN OF CULPEPER, VIRGINIA**  
**CURRENT YEAR COMMENTS**

**FINANCIAL REPORTING COMMENTS**

**Accounts Receivable Voids**

During testing of the existence of miscellaneous accounts receivable, we noted numerous voids in which the transactions were duplicated and balances were not timely written off. Excessive voids in accounts receivable without timely approval increase the risk that misstatements due to error or fraud will go undetected. We recommend that all voided transactions be timely approved by the appropriate supervisor. This approval will mitigate the risk of irregularities in accounting records.

**Management's response:** During the reconciliation of miscellaneous accounts receivable, staff determined that some transactions needed to be voided. The voiding of these transactions were processed by the Collections Supervisor and approved by the Interim Treasurer. Staff has begun to reconcile these accounts on a monthly basis.

**Capital Asset Listings**

During testing of capital assets, we noted that complete asset listings, of construction in progress were not reviewed by department supervisors on a regular basis. As a result, there were several misstatements in capital assets related to the timing of when assets were placed in service. We recommend that capital asset listings of construction in progress be reviewed by department supervisors on a quarterly basis. This process will ensure that assets are placed in service in a timely manner.

The listing of capital assets includes descriptions that are general in nature which make it difficult to identify assets that are disposed or obsolete. It is recommended that assets on the capital asset listing be specifically identified and fully depreciated or obsolete assets that are no longer in use be removed.

**Management's response:** During the FY16 review of construction in progress and capital assets, it was identified that some of the outstanding construction in progress projects were actually completed and should have been placed in service in the prior years, causing the misstatement. The current listing of all assets is being reviewed by Finance to address broad general asset descriptions as well as removing fully depreciated items.

**Inventory Counts**

During our observation of inventory, we noted that inventory items at public works and the wastewater treatment facility were not properly organized and were difficult to find for our test counts. The unorganized nature of the inventory stock resulted in several errors. In particular, we noted six errors out of ten inventory test counts at the wastewater treatment facility. We recommend that inventory be appropriately organized and due care be taken when performing inventory counts.

**Management's response:** Finance is working closely with Public Works and the Wastewater Treatment Facility to find ways to better organize inventory, identifying one specific location for the inventory, and looking at ways to reduce inventory count variances.

**TOWN OF CULPEPER, VIRGINIA**  
**STATUS OF PRIOR YEAR COMMENTS**

**FINANCIAL REPORTING COMMENTS**

**Reconciliations and Adjustments (Aggregate Current Year Material Weakness and Prior Year Significant Deficiency)**

The Town should adopt a policy requiring monthly reconciliation of all significant balance sheet accounts to their subsidiary ledgers in order to ensure the accuracy of the monthly financial statements and underlying subsidiary ledgers. Balance sheet reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end and in no case later than the end of the following month. These reconciliations, if performed, would have significantly decreased the number of audit adjustments necessary in the current year. All of these reconciliations should be performed by Town staff and reviewed and approved by the Director of Finance/Treasurer.

The following are a list of suggested reconciliations that the Town should perform:

- All cash and investment accounts should be reconciled to the general ledger using deposits in transit and outstanding checks.
- Tax ledgers should be reconciled to tie out billings, collections, abatements, and accounts receivable for personal property and real estate.
- Miscellaneous accounts receivable, lodging tax, meals tax, due from other governments, and other receivables should be reconciled to supporting documentation.
- Utility accounts receivable and revenue accounts should be reconciled to cash receipts and billings for the month.
- Prepays should be tied from the general ledger to an Excel spreadsheet to track the monthly write-off amount.
- Due to/due froms and transfers between funds should be reconciled to make sure they net to zero.
- Accounts payable should be reconciled to the subsidiary ledger.
- Customer deposits payable should be reconciled to the subsidiary ledger and amongst the various funds.
- Capital Assets should be reconciled on a quarterly basis beginning with prior year balance, adding purchases, moving transfers from construction in progress to depreciable accounts, and subtracting disposals.
- Debt should be reconciled to the amortization schedule provided by the lender including, principal and interest accruals and proceeds.
- The Town should reconcile various payroll liability accounts including VRS, Health Insurance, etc.
- Fund balance/net assets for each fund should be reconciled to the prior year audit report once a year and no adjustments should be made to these amounts unless material errors in prior reported amounts are encountered.

## TOWN OF CULPEPER, VIRGINIA

### STATUS OF PRIOR YEAR COMMENTS (Continued)

#### FINANCIAL REPORTING COMMENTS (Continued)

##### **Reconciliations and Adjustments (Aggregate Current Year Material Weakness and Prior Year Significant Deficiency) (Continued)**

**Current Status:** *During the 2016 audit, the Town had multiple material audit adjustments for the financial statements to be in compliance with generally accepted accounting principles.*

*In the current year, there were a significant amount of proposed adjustments. These adjustments, as described in the letter to those charged with governance, were significant enough in nature to be material to the financial statement users.*

*It is imperative that the Town begin to perform regular reconciliations and review of the general ledger on a monthly basis to ensure that accounts are appropriately reconciled and reflect the correct balances. Without such reconciling and review procedures in place, not only is the trial balance provided for the audit incorrect, but monthly reporting to the departments and Town Council would also be incorrect.*

**Management's response:** Final fieldwork was scheduled earlier than normal by staff to make sure all year end reporting deadlines were met. With the earlier audit timeline, staff were actively preparing audit items while auditors worked on site. Unexpected financial system problems occurred while closing out FY15 in March 2016. These circumstances contributed to the significant amount of audit adjustments. Management is working to reconcile and review all balances in a more timely manner to ensure monthly reports to Council are accurate. With the transition to Munis, this will be a more efficient and more timely process as all modules are contained in one system. Currently staff have to manually combine and reconcile all three data systems into one since there is not seamless integration between them.

##### **Inventory Valuation**

In order to abide by the Town's adopted inventory method of FIFO, inventory items should be carried at historical cost. Under the current inventory valuation method, all items are recorded at the last purchased price for that particular item. This may not be the price at which the item was purchased. We recommend fully implementing the new inventory software through Munis to track inventory purchases and usage.

**Current Status:** *This comment is still applicable in the current year as departments have not implemented the inventory tracking software.*

**Management's response:** The inventory module with Munis will be implemented in a later phase as we are currently reviewing and researching the current inventory listing so that we have good data and information to setup in Munis. Finance is working closely with Public Works, Environmental Services, and Light & Power to address inventory audit findings.

## TOWN OF CULPEPER, VIRGINIA

### STATUS OF PRIOR YEAR COMMENTS (Continued)

#### **SEGREGATION OF DUTIES COMMENTS (Significant Deficiency)**

One of the more important aspects of any internal control 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 either not be detected or concealed.

Specific items related to segregation of duties are discussed below:

- We noted that the Interim Treasurer has access to cash receipts, the accounts payable module, the payroll module, the ability to post journal entries, and bank reconciliation duties. In a well-controlled environment, these duties would be separated. We understand that due to the size of the Finance Department, it may be impractical to completely separate all of these duties.

**Current Status:** *During the Deputy Treasurer's transition to Interim Treasurer, many of the access capabilities remained the same. Comment is still applicable.*

**Management's response:** The Treasurer's office has policies and procedures in place to address the separation of duties issues. Staff cannot post their own work, nor can they void their own transactions. Other items including all reconciliations, journal entries, accounts payable and payroll processing have a three step review/approval process. Staff anticipate that with the implementation of Munis, it will address the majority of these separation of duties issues.

#### **Administrator Logs**

Based on our discussions with Director of IT, we determined that the Town is not keeping administrator logs for either the Active Directory network system or the Great Plains application. This increases the risk that inappropriate activity could occur and go undetected at the administrator level of both systems. We recommend that the Town configure the logs to record administrator activity and have that log reviewed by a non-administrator on a regular basis.

**Current Status:** *Administrator logs are not available in updated Great Plains. Comment is still applicable.*

**Management's response:** Since our current financial software does not have audit logs, we do have departmental policies as well as we have restricted users in Great Plains to limit user access to modules they should not have access to. With our transition to Munis, the software has built in administration/audit logs that will address this issue in the future.



**TOWN OF CULPEPER, VIRGINIA**  
**STATUS OF PRIOR YEAR COMMENTS**  
**(Continued)**

**DISASTER RECOVERY AND BACKUP AND RESTORE**

Per review of documentation and through discussion with the Director of IT, we determined that the Town does not have a formally documented disaster recovery plan. The Director has received some templates that could be used to create a plan but does not have the available resources currently to complete the plan. Without a disaster recovery plan, the Town has an increased risk of an extended interruption of service in the event of a disaster or emergency. We recommend that the Town have a formalized disaster recovery plan drafted, approved, and tested on an annual basis.

**Current Status:** *IT has implemented a backup and disaster recovery solution, [REDACTED] is still applicable for the current year.* *Comment*

**Management's response:** IT is working on the formalized written disaster recovery plan in FY17. The Business Analyst is tasked to meet with all departments to start formalizing the plan and documentation.

**TOWN OF CULPEPER, VIRGINIA**  
**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, *Financial 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.

**TOWN OF CULPEPER, VIRGINIA**  
**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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**GASB STATEMENT NO. 77 (Continued)**

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:

- 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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**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.

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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**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.

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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**GASB STATEMENT NO. 82 (Continued)**

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** 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.



**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**CURRENT GASB PROJECTS (Continued)**

- ***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.
- ***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.

**TOWN OF CULPEPER, VIRGINIA**  
**ACCOUNTING AND OTHER MATTERS**  
**(Continued)**

**CURRENT GASB PROJECTS (Continued)**

- ***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.