



December 6, 2018

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, 2018, we have the following comments and suggestions for your consideration.

Status of Previous Management Advice

In our letter dated November 27, 2017, we recommended the following comments which have not been implemented or have been partially implemented:

School Board

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 \$440,000. We recommend management evaluate budget to actual expenditures on an ongoing basis and make additional appropriation requests before actual expenditures exceed budgeted expenditures.

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, 2018, 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. 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. 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.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

The primary objective of this Statement is to improve the information disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date of the contractual obligation.

This Statement requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

The requirements of Statement No. 88 are effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

County of Augusta, Virginia
December 6, 2018
Page 4 of 4

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, 2018 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

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