

TOWN OF LEESBURG, VIRGINIA

REPORT TO TOWN COUNCIL

DECEMBER 13, 2016



ASSURANCE, TAX & ADVISORY SERVICES



To the Honorable Mayor and Members of Council
Town of Leesburg, Virginia
Leesburg, Virginia

We are pleased to present this report related to our audit of the basic financial statements and compliance of the Town of Leesburg, Virginia (Town) for the year ended June 30, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Town's financial and compliance reporting process.

This report is intended solely for the information and use of Town Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Town.

PBMares, LLP

Harrisonburg, Virginia
December 13, 2016

TOWN OF LEESBURG, VIRGINIA

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TOWN OF LEESBURG, VIRGINIA

REQUIRED COMMUNICATIONS Year Ended June 30, 2016

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit and compliance reporting process, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and compliance reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement and Compliance Audit	Our responsibilities under auditing standards generally accepted in the United States of America; <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States; the provisions of the Single Audit Act, Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance; OMB's <i>Compliance Supplement</i> ; and <i>Specifications for Audits of Counties, Cities, and Towns</i> provided by the Auditor of Public Accounts of the Commonwealth of Virginia have been described to you in our arrangement letter dated July 12, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement and Compliance Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	Preferability of Accounting Policies and Practices Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The Town adopted GASB Statement No. 72, <i>Fair Value Measurement and Application</i> , and GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i> , in the current year.

TOWN OF LEESBURG, VIRGINIA

REQUIRED COMMUNICATIONS (Continued)

Year Ended June 30, 2016

Area	Comments
Accounting Policies and Practices (Continued)	Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates."
Audit Adjustments	Audit adjustments proposed by us and recorded by the Town are shown in the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiency in Internal Control Over Financial Reporting	We have separately communicated the significant deficiency in internal control over financial reporting identified during our audit of the basic financial statements, as required by <i>Government Auditing Standards</i> and Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at CFR 200 (Uniform Guidance). This communication can be found in the Compliance Section of the Town's Comprehensive Annual Financial Report for the year ended June 30, 2016.
Significant Written Communications Between Management and Our Firm	Copies of material written communications between our firm and management of the Town, including the representation letter provided to us by management, are attached as Exhibit A.

TOWN OF LEESBURG, VIRGINIA

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES
Year Ended June 30, 2016

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Town’s June 30, 2016 financial statements:

Area	Accounting Policy	Estimation Process	Basis for Our Conclusions on Reasonableness of Estimates
Capital Assets	Estimated lives of depreciable and amortizable assets Acquisition value of donated property	Management assigns lives to assets purchased or constructed internally based on the expected useful life of those assets or the product associated with those assets. Management assigns value to property donated to the Town based on the acquisition value of the asset at the time of donation.	While these estimates are based on historical information, management should continue to monitor the lives assigned to the Town’s assets to ensure the recovery period of these costs are accurate. While these values are based on historical financial information, management should continue to evaluate recorded values to ensure the assets are accurately represented.
Accrued Expenses	Incurred, but not recorded (IBNR) liability	Management evaluates accruals for potential liabilities associated with the Town’s self-insurance plan based on an average rate applied to incurred claims provided by the Town’s insurance carrier.	While these estimates are based on the aggregate amount of the liability for reported claims and an estimated liability for claims incurred but not reported, management should continue to monitor the actual claims to ensure that the potential liability is accurately reported.
Unbilled Water and Sewer Receivable	Estimated water and sewer revenue	Management records water and sewer receivables based on the subsequent billings for that district.	While these estimates are based on sound financial information, management should monitor these estimates and compare the actual billings and usage to ensure the accuracy of these estimates.

TOWN OF LEESBURG, VIRGINIA

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)
Year Ended June 30, 2016

Area	Accounting Policy	Estimation Process	Basis for Our Conclusions on Reasonableness of Estimates
Pension Liability and Other Postemployment Benefits (OPEB)	Pension and OPEB liabilities, deferred outflows/inflows of resources and costs for financial accounting and disclosure purposes.	Management recognizes pension and OPEB liabilities based on market trends and industry standards.	While these estimates are based on assumptions provided by market trends and industry standards, management should monitor these estimates and compare to actual costs over time.
Receivables	Allowance for doubtful accounts	Management records an allowance for uncollectible accounts based on an analysis of historical write-offs and collections to arrive at an overall assessment of whether past due accounts will be collected.	While these estimates are based on sound financial information, management should monitor these estimates and compare the actual collections of these revenues to ensure the accuracy of these estimates.

TOWN OF LEESBURG, VIRGINIA

**SUMMARY OF RECORDED AUDIT ADJUSTMENTS – GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2016**

Description	Increase (Decrease)						
	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenditures
To record change in net pension liability.	\$ -	\$ -	\$ 1,154,282	\$ -	\$(1,154,282)	\$ -	\$ 1,154,282
To reverse prior year deferred outflows of resources.	-	(1,558,151)	-	-	(1,558,151)	-	1,558,151
To record change in deferred inflows of resources.	-	-	-	(1,677,549)	1,677,549	-	(1,677,549)
To record current year deferred outflows of resources.	-	1,480,473	-	-	1,480,473	-	(1,480,473)
To record accounts receivable and revenue associated with grant expenditures.	18,896	-	-	-	18,896	18,896	-
To record additional accounts payable.	-	-	116,269	-	(116,269)	-	116,269
Income statement effect						<u>\$ 18,896</u>	<u>\$ (329,320)</u>
Statement of Net Position effect	<u>\$ 18,896</u>	<u>\$ (77,678)</u>	<u>\$ 1,270,551</u>	<u>\$(1,677,549)</u>	<u>\$ 348,216</u>		

TOWN OF LEESBURG, VIRGINIA

SUMMARY OF RECORDED AUDIT ADJUSTMENTS –BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2016

Description	Increase (Decrease)						
	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses
To record change in net pension liability.	\$ -	\$ -	\$ 450,118	\$ -	\$ (450,118)	\$ -	\$ 450,118
To reverse prior year deferred outflows of resources.	-	(397,932)	-	-	(397,932)	-	397,932
To record change in deferred inflows of resources.	-	-	-	(390,938)	390,938	-	(390,938)
To record current year deferred outflows of resources.	-	388,731	-	-	388,731	-	(388,731)
To record additional accounts payable.	-	-	31,829	-	(31,829)	-	31,829
Income statement effect						\$ -	\$ 100,210
Statement of Net Position effect	\$ -	\$ (9,201)	\$ 481,947	\$ (390,938)	\$ (100,210)		

**Exhibit A – Significant Written Communications Between Management and
Our Firm**

Arrangement Letter



July 12, 2016

Town of Leesburg, Virginia
25 West Market Street
Leesburg, Virginia 20176

Attention: Kaj H. Dentler, Town Manager

The Objective and Scope of the Audit of the Financial Statements

You have requested we audit the Town of Leesburg's (Town) governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2016, which collectively comprise the basic financial statements. Also, the required supplementary information (RSI) and supplementary information presented in relation to the financial statements taken as a whole, will be subjected to the auditing procedures applied in our audit of the basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will also perform the audit of the Town as of June 30, 2016 so as to satisfy the audit requirements imposed by the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); *Government Auditing Standards* issued by the Comptroller General of the United States (GAS); the provisions of the Single Audit Act; Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance; the U.S. Office of Management and Budget's (OMB) Compliance Supplement; and the *Specifications for Audits of Counties, Cities, and Towns*, provided by the Auditor of Public Accounts for the Commonwealth of Virginia. Those standards, regulations, supplement, and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, GAS does not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the Town Council (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds you have told us are maintained by the Town and that are to be included as part of our audit are listed here:

- | | |
|---------------------------|--|
| I. General Fund | V. Other Post Employment Benefits (OPEB) Trust Fund |
| II. Utilities Fund | |
| III. Self-Insurance Fund | VI. Northern Virginia Transportation Authority (NVTA) Fund |
| IV. Capital Projects Fund | |

No component unit financial statements are to be included in the Town's basic financial statements.

The federal financial assistance programs and awards you have told us the Town participates in and are to be included as part of the single audit are listed on Attachment A.

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards, regulations, supplement, and specifications identified above. Our reports on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards, regulations, supplement, and specifications identified above.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. To evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees they will not evaluate subsequent events earlier than the date of the management representation letter referred to below;
3. 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. For establishing and maintaining effective internal control over financial reporting, and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
5. For (a) making us aware of significant vendor relationships where the vendor is responsible for program compliance, (b) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan, and (c) report distribution, including submitting the reporting package; and
6. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information we may request from management for the purpose of the audit;
 - c. Unrestricted access to persons within the Town from whom we determine it necessary to obtain audit evidence;
 - d. When applicable, a summary schedule of prior audit findings for inclusion in the single audit reporting package; and
 - e. If applicable, responses to any findings reported on the schedule of findings and questioned costs.

As part of our audit process, we will request from management and, when appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit, including, among other items, that:

1. Management has fulfilled its responsibilities as set out in the terms of this letter; and
2. It believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring the Town complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the Town involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the Town received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the RSI and supplementary information presented in relation to the financial statements as a whole in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the RSI and supplementary information in any document that contains the RSI and supplementary information and indicates that the auditor has reported on such RSI and supplementary information. Management also agrees to present the RSI and supplementary information with the audited financial statements or, if the RSI and supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the RSI and supplementary information no later than the date of issuance of the RSI and supplementary information and the auditor's report thereon.

The Town Council is responsible for informing us of its views about the risks of fraud or abuse within the Town, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the Town.

Limitations

The Town Council agrees it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the Town agrees to contact us before it includes our reports, or otherwise makes reference to us, in any public or private securities offering.

Our association with an official statement is a matter for which separate arrangements may be necessary. The Town agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Town seeks such consent, we will be under no obligation to grant such consent or approval, such consent or approval not to be unreasonably withheld.

Records and Assistance

If circumstances arise relating to the condition of the Town's records, the availability of appropriate audit evidence or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting or misappropriation of assets which, in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Town's books and records. The Town will determine all such data, if necessary, will be so reflected. Accordingly, the Town will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Town personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Lisa Beatty, Controller. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including drafting the financial statements. The GAS independence standards require the auditor maintain independence so that opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the Town, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is considerations of management's ability to effectively oversee the non-audit services to be performed. The Town has agreed that Lisa Beatty, Controller, possesses suitable skill, knowledge and experience and that she understands the services to be performed sufficiently to oversee them. Accordingly, the management of the Town agrees to the following:

1. The Town has designated Lisa Beatty, Controller, as a senior member of management who possesses suitable skill, knowledge and experience to oversee the services;
2. Lisa Beatty, Controller, will assume all management responsibilities for subject matter and scope of the non-audit services;
3. The Town will evaluate the adequacy and results of the services performed; and
4. The Town accepts responsibility for the results and ultimate use of the services.

GAS further requires we establish an understanding with the Town's management and those charged with governance of the objectives of the non-audit services, the services to be performed, the Town's acceptance of its responsibilities, the auditor's responsibilities and any limitations of the non-audit services. We believe this letter documents that understanding.

Other Relevant Information

PBMares, LLP may mention the Town's name and provide a general description of the engagement in PBMares, LLP's client lists and marketing materials.

From time to time and depending upon the circumstances, we may use domestic third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

While there is an attorney-client privilege, there is no accountant-client privilege. Accordingly, any information you provide to us is subject to discovery. Unless prohibited by law, we will notify you if we receive any subpoena, IRS summons, or other third party request for our information and/or records concerning you. If you direct us to disclose the requested information, we will comply with the subpoena or IRS summons and, in the case of a third party request, we will need you to sign a form authorizing the disclosure. If you do not direct us to disclose the requested information, we may engage counsel to protect your interest in non-disclosure. In either event, we will bill you for all of our costs associated with complying with your directions. Our bill will include, in addition to our then standard fees and charges and, by way of illustration only, our attorney's fees, court costs, outside adviser's costs, penalties, and fines imposed because of our nondisclosure.

In accordance with GAS, a copy of our most recent peer review report can be located on our website at www.pbmares.com.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate and completion of our work are based upon the following criteria:

1. Anticipated cooperation from Town personnel.
2. Timely responses to our inquiries.
3. Timely completion and delivery of client assistance requests.
4. Timely communication of all significant accounting and financial reporting matters.
5. The assumption unexpected circumstances will not be encountered during the engagement.

If any of the aforementioned criteria are not met, then fees may increase. Our fee for the services described in this letter will not exceed \$85,500 unless the scope of the engagement is changed, the assistance which the Town has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. If more than one federal program is required to be audited under the Single Audit Act, an additional fee of \$2,500 will be added. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Amounts not paid within thirty days from the invoice date(s) will be subject to a late payment charge of 1.5% per month (18% per year).

Our professional standards require we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Town agrees it will compensate PBMares, LLP for any additional costs incurred as a result of the Town's employment of a partner or professional employee of PBMares, LLP.

The documentation for this engagement is the property of PBMares, LLP. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of PBMares, LLP audit personnel and at a location designated by our firm.

You have informed us you intend to prepare a comprehensive annual financial report (CAFR) and submit it for evaluation by the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. Our association with the CAFR is to consist of assisting with replying to the GFOA comments and ensuring the comments have been addressed with the current year CAFR.

Dispute Resolution

If any term or provision of this agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken and all other terms and provisions will remain in full force and effect.

Termination and Other Terms

We reserve the right to withdraw from the engagement without completing our services for any reason, including, but not limited to, your failure to comply with the terms of this engagement letter, or as we determine professional standards require.

At the completion of our engagement, the original source documents will be returned to you. Work papers and other documents created by us are our property. Such original work papers will remain in our control, and copies are not to be distributed without our prior written consent.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope and estimated cost of these additional services. Engagements for additional services may necessitate that we amend this letter or issue a separate engagement letter to reflect the obligations of both parties. In the absence of any other written communications from us documenting additional services, our services will be limited to and governed by the terms of this engagement letter.

If any portion of this engagement letter is deemed invalid or unenforceable, such a finding shall not operate to invalidate the remainder of the terms set forth in this engagement letter.

Reporting

We will issue a written report upon completion of our audit of the Town's financial statements. Our report will be addressed to the Town Council. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph, or withdraw from the engagement.

In addition to our report on the Town's financial statements, we will also issue the following types of reports:

1. A report on the fairness of the presentation of the Town's schedule of expenditures of federal awards for the year ended June 30, 2016;
2. Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal control;
3. Reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance that could have a material effect on the financial statements and any noncompliance that could have a material effect, as defined by Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance, on each major program; and
4. An accompanying schedule of findings and questioned costs.

This letter constitutes the complete and exclusive statement of agreement between PBMares, LLP and the Town, superseding all proposals, oral or written, and all other communications with respect to the terms of the engagement between the parties.

Please sign and return a copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements, including our respective responsibilities.

PBMares, LLP,



Michael A. Garber, Partner

MAG/sae

Confirmed on behalf of the Town:



Signature 

07/25/16

Date

Approved As To Form:


Town Attorney

ATTACHMENT A

TOWN OF LEESBURG, VIRGINIA
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number
DEPARTMENT OF JUSTICE	
Pass-through payments: Town of Vienna, Virginia Gang Free Schools and Communities - Community Based Gang Intervention	16.544
Direct payments: Byrne Justice Assistance Grant	16.738
DEPARTMENT OF TRANSPORTATION	
Direct payments: Airport Improvement Program	20.106
Pass-through payments: Virginia Department of Transportation ARRA - Highway Planning and Construction	20.205
DEPARTMENT OF HOMELAND SECURITY	
Pass-through payments: Commonwealth of Virginia, Department of Emergency Services Disaster Grants - Public Assistance	97.036

Representation Letter

November 23, 2016

PBMares, LLP
P. O. Box 1226
Harrisonburg, Virginia 22803

This representation letter is provided in connection with your audit of the basic financial statements of the Town of Leesburg, Virginia (Town) as of and for the year ended June 30, 2016 for the purpose of expressing an opinion on 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).

We confirm, to the best of our knowledge and belief, as of November 23, 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 arrangement letter dated July 12, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. We have disclosed all interfund transactions, including interfund transfers, which have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Net position and fund balance classifications.
 - b. The fair value of investments.
 - c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

- d. Debt issue provisions.
 - e. Leases and material amounts of rental obligations under long-term leases.
 - f. Risk retentions, including uninsured losses or loss retentions (deductible) attributable to events occurring through June 30, 2016 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2016.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
- a. The Town has no significant amounts of idle property and equipment.
 - b. The Town has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
9. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreement attributable to employee services rendered through June 30, 2016.
10. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a “potentially responsible party” by the Environmental Protection Agency in connection with any environmental contamination.
 - c. Line of credit or similar arrangements.
 - d. Impaired capital assets.
11. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
12. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.

13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. The Town has satisfactory title to all owned assets.
15. Net position (net investment in capital assets, restricted and unrestricted) and fund balances are properly classified and, when applicable, approved.
16. Expenses or expenditures 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.
17. Revenues are appropriately classified in the Statement of Activities within program revenues and general revenues.
18. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated or amortized.
19. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

20. 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.
 - b. Additional information that you have requested from us for the purpose of the audit. Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
 - c. Minutes of the meetings of the governing body and committees of Council, or summaries of actions of recent meetings for which minutes have not yet been prepared.
21. All transactions have been recorded in the accounting records and are reflected in the financial statements.
22. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
23. We have no knowledge of allegations of fraud or suspected fraud, affecting the Town's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements received in communications from employees, former employees, analysts, regulators, or others.

25. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
26. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
27. We are aware of no significant deficiencies, other than what has been disclosed to you, including material weaknesses, in the design or operation of internal controls that could adversely affect the Town's ability to record, process, summarize, and report financial data.
28. We have informed you of notices from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, if any.

Supplementary Information

29. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
30. With respect to the Management's Discussion and Analysis and Required Supplementary Information presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
31. We agree with the findings of the specialists in evaluating the assertions found in footnote 11, Pension Plan and footnote 10, Other Postemployment Benefits, and have adequately considered the qualifications of the specialists 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 the 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.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm management:

32. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

33. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
34. Has not identified any instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that 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.
35. Has not identified any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
36. Has not identified any 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.
37. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.
38. Has a process to track the status of audit findings and recommendations.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:

39. We are responsible for complying, and we have complied, with the requirements of Uniform Guidance.
40. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.
41. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
42. We have prepared the Schedule of Expenditures of Federal Awards in accordance with Uniform Guidance and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants and federal cost-reimbursement contracts.
43. We have identified and disclosed to you the government programs and related activities subject to the Uniform Guidance compliance audit.
44. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the major program.

45. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
46. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.
47. We believe we have complied with the direct and material compliance requirements.
48. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for reimbursement.
49. We have provided you our interpretations of any compliance requirements that are subject to varying interpretations.
50. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.
51. Federal program financial reports and claims for reimbursements are supported by the books and records from which the basic financial statements have been prepared.
52. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
53. We have charged costs to federal awards in accordance with applicable cost principles.
54. We will review and complete the appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.
55. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

TOWN OF LEESBURG, VIRGINIA

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kaj Dentler', with a horizontal line extending to the right from the end of the signature.

Kaj Dentler
Town Manager

A handwritten signature in black ink that reads 'Clark G. Case'.

Clark G. Case
Director of Finance and Administrative Services

A handwritten signature in blue ink that reads 'Lisa Stillman'.

Lisa Stillman
Controller