

REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Members of Town Council
and School Board
Town of Colonial Beach, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund, of the Town of Colonial Beach, Virginia, collectively hereafter referred to as the “Town” for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and *OMB Circular A-133*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 16, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. As described in Notes 8 and 9 to the financial statements, the Town adopted a new accounting standard in 2015: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The cumulative effect of the accounting change has been reported as of the beginning of the year. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of capital assets and the allowance for uncollectible accounts are based on management’s knowledge and judgment, which is based on history.
- The net pension liability is based on an actuarial study provided by actuaries engaged by the Virginia Retirement System.

We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

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

- Capital assets, long-term debt, pension obligations, and commitments and contingencies.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

The following misstatements detected as a result of audit procedures were corrected by management. All amounts are rounded to the nearest thousand.

Corrected Misstatements

Town

- Approximately \$638,000 to reduce debt proceeds, approximately \$27,000 to record debt issuance costs, \$5,000 to reduce expenditures, \$510,000 transfer to water fund from general fund, and \$150,000 transfer to sewer fund from general fund to record bond issuance costs and reduced bond proceeds.
- Approximately \$7,000 to decrease transfers from the general fund to the water fund and a corresponding increase in debt. Also, approximately \$657,000 reclassification of expenditures from principal payments to refundings and an approximately \$7,000 to increase transfers from the general fund to the water fund with a corresponding decrease to principal payments.
- Approximately \$4,000 to decrease interest payable in the sewer fund and a corresponding decrease to interest expense. Also, \$2,000 to increase interest payable in the water fund and a corresponding increase to interest expense.

Schools

- Approximately \$9,000 to increase expenditures and corresponding increase to accrued payroll to record accrued benefit payout.
- Approximately \$48,000 to increase deferred revenue and \$24,000 to increase accounts receivable and \$24,000 to decrease revenues to record June sales tax received in August.
- Approximately \$71,000 to increase accounts receivable and a corresponding increase to transfers from the Town.
- Approximately \$81,000 to increase accounts payable and a corresponding increase to expenditures.
- Approximately \$382,000 to increase cash, \$144,000 to increase accounts payable, and \$238,000 to decrease expenditures to reverse checks incorrectly recorded as outstanding as of June 30, 2015.

Corrected Misstatements (Continued)

Schools

- Approximately \$5,000 decrease to transfers to the Town and a corresponding decrease in expenditures to record fuel costs due to the Town at year end.

Uncorrected Misstatements

Management has determined that the effects of the following unrecorded misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Approximately \$36,000 in the school fund to increase current year expenses and increase beginning net position to correct the prior year accrual for twelve month employees that should not have been accrued totaling \$27,000 and the accrual of \$9,000 in expenses in the wrong period.
- Approximately \$8,000 in the government-wide activities to decrease current year revenue and increase beginning net position to correct for fiscal year 2014 revenue recorded in fiscal year 2015.
- Approximately \$6,000 in the general fund to reduce current year payroll expenditures and decrease beginning fund balance for 2014 payroll expenditures that were processed during 2015 rather than fiscal year 2014.
- Approximately \$7,000 to increase accounts receivable and a corresponding increase to revenue in the school fund on the government-wide statements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 17, 2015, a copy of which is attached.

Management Consultations with Other Independent Accountants

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

Honorable Members of Town Council
and School Board
Town of Colonial Beach, Virginia
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Uncorrected Misstatements (Continued)

Other Audit Findings or Issues

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

Other Matters

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

We were engaged to report on the combining financial statements and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Restriction on Use

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

Very truly yours,



CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2015

Attachment

MAYOR
Mike Ham



TOWN MANAGER
Val Foulds

TOWN COUNCIL

Eddie Blunt-Vice Mayor
Wayne DiRosario
Tommy Edwards
Wanda L. Goforth
Mike Looney
Burkett Lyburn

TOWN OF COLONIAL BEACH
315 Douglas Ave.
Colonial Beach, Virginia 22443
(804) 224-7181 FAX (804) 224-7185

CHIEF FINANCIAL OFFICER
Joan H. Grant

TOWN ATTORNEY
Andrea G. Erard

TOWN CLERK
Kathleen Flanagan

November 17, 2015

Brown, Edwards & Company, L.L.P.
124 Newman Avenue
Harrisonburg, VA 22801

This representation letter is provided in connection with your audit of the financial statements of the Town of Colonial Beach, Virginia, which comprise the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of November 3, 2015, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 16, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
 - Approximately \$36,000 in the school fund to increase current year expenses and increase beginning net position to correct the prior year accrual for twelve month employees that should not have been accrued totaling \$27,000 and the accrual of \$9,000 in expenses in the wrong period.
 - Approximately \$8,000 in the government-wide activities to increase current year expenses and increase beginning net position to correct for fiscal year 2014 expenses recorded in fiscal year 2015.
 - Approximately \$6,000 in the general fund to reduce current year payroll expenditures and decrease beginning fund balance for 2014 payroll expenditures that were processed during 2015 rather than fiscal year 2014.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

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

Government—specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us, if applicable.
- 21) We have a process to track the status of audit findings and recommendations, if applicable.
- 22) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 23) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if applicable.
- 24) The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 25) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 27) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 28) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 29) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 30) As part of your audit, you assisted with preparation of the financial statements and related notes, including audit adjustments and schedule of expenditures of federal awards. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, including audit adjustments, and schedule of expenditures of federal awards.
- 31) The Town and School Board have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements
- 32) The Town and School Board have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 33) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

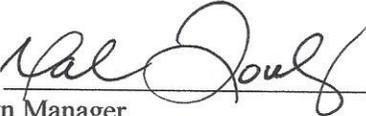
- 34) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 35) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 36) Components of net position (net investment in capital assets; restricted; and unrestricted), and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 37) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 38) Provisions for uncollectible receivables have been properly identified and recorded.
- 39) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 40) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 41) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 42) Special and extraordinary items are appropriately classified and reported, if applicable.
- 43) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 44) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 45) Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
- 46) We believe that the actuarial assumptions and methods used to measure pension and costs for financial accounting purposes are appropriate in the circumstances.
- 47) We have not completed the process of evaluating the impact that will result from adopting new Governmental Accounting Standards Board (GASBS) Statements that are not yet effective, as discussed in the notes to financial statements. The entity is therefore unable to disclose the impact that adopting these Statements will have on its financial position and the results of its operations when the Statements are adopted.
- 48) We agree with the findings of specialists in evaluating the pension liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- 49) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances, if applicable.
- 50) We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 51) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 52) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not

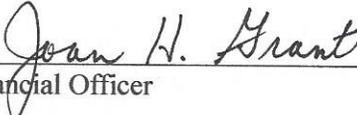
changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- 53) With respect to the supplementary information on which an in-relation-to opinion is issued.
- a) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 54) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
 - d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133, and have included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and 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 each major program.
 - f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
 - g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
 - h) We have received no requests from a federal agency to audit one or more specific programs as a major program.

- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133, if applicable.
- u) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings, if applicable.
- v) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records, if applicable.
- w) We have charged costs to federal awards in accordance with applicable cost principles.
- x) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- y) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- z) We are responsible for preparing and implementing a corrective action plan for each audit finding.
- aa) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations, if applicable.

Signature: 
Title: Town Manager

Signature: 
Title: Chief Financial Officer

Signature: 
Title: Superintendent

Signature: 
Title: Director of Finance, Schools