19-203

Alleghany County School Board

Audit Presentation

March 18, 2019

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Alleghany County School Board

Audit Presentation

Fiscal Year Ended June 30, 2018

Alleghany School Board
Select Historical Financial Data

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Funding Sources:										
State	$ 17,260,809	$ 14,060,814	$ 13,411,216	$ 13,771,846	$ 13,544,819	$ 12,488,922	$ 12,973,631	$ 12,359,523	$ 12,602,105	$ 12,526,153
Federal	2,214,358	4,635,941	3,292,191	3,294,704	2,183,610	2,018,284	1,981,214	2,022,076	1,904,427	2,030,565
Local contribution	11,369,611	11,446,975	11,563,846	11,858,250	12,364,574	13,525,011	11,527,640	11,043,372	11,296,651	11,307,417
Local - other local revenue	1,618,466	1,592,859	1,198,648	1,421,216	1,368,615	1,350,836	1,162,063	1,181,234	1,193,795	1,344,633
Total Revenues	$ 32,463,244	$ 31,736,589	$ 29,465,901	$ 30,346,016	$ 29,461,618	$ 29,383,053	$ 27,644,548	$ 26,606,205	$ 26,996,978	$ 27,208,768
Expenditures:										
School Expenditures	$ 31,111,187	$ 29,522,223	$ 28,525,156	$ 29,817,095	$ 28,586,428	$ 26,748,490	$ 26,659,615	$ 26,263,297	$ 26,698,943	$ 26,157,339
Facilities/capital projects	838,884	1,474,879	9,100	50,118	359,159	4,624,911	96,849	147,996	377,846	599,859
Total Expenditures	$ 31,950,071	$ 30,997,102	$ 28,534,256	$ 29,867,213	$ 28,945,587	$ 31,373,401	$ 26,756,464	$ 26,411,293	$ 27,076,789	$ 26,757,198
Increase (Decrease) in fund balance	$ 513,173	$ 739,487	$ 931,645	$ 478,803	$ 516,031	$ (1,990,348)	$ 888,084	$ 194,912	$ (79,811)	$ 451,570
Beginning Fund Balance (all funds)	$ 2,553,724	$ 3,066,897	$ 3,806,384	$ 4,738,029	$ 5,216,832	$ 5,732,863	$ 3,742,515	$ 4,630,599	$ 4,825,511	$ 4,745,700
Ending Fund Balance (all funds)	$ 3,066,897	$ 3,806,384	$ 4,738,029	$ 5,216,832	$ 5,732,863	$ 3,742,515	$ 4,630,599	$ 4,825,511	$ 4,745,700	$ 5,197,270

Includes all funds of the School Board. Information scheduled from the School Board's Annual Financial Reports as adjusted retroactively for any restatements.

Alleghany County School Board
Long-term Obligations

	Fiscal Year Ending				Based on
	2015	**2016**	**2017**	**2018**	**Discount Rate**
Accrued Leave	170,639	168,561	167,716	168,642	NA
VRS Pension Liability	20,540,817	20,378,143	21,716,000	18,329,000	7.00%
Other Post Employment Benefits:					
Health Insurance	471,577	473,844	1,440,205	1,408,328	3.87%
Group Life Insurance	Prior to implementation of		1,329,000	1,106,000	7.00%
Teacher Health Insurance Credit	GASB Statement Number 75		1,965,000	1,881,000	7.00%
				-	
Total Long-term Obligations	21,183,033	21,020,548	26,617,921	22,892,970	

Information scheduled from the School Board's Annual Financial Reports as adjusted retroactively for any restatements.
OPEB liabilities were not fully accrued (reported) prior to the implementation of GASB Statement Number 75.

ROBINSON, FARMER, COX ASSOCIATES

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Report of Audit Findings and Recommendations

Date: July 11, 2018

To the Alleghany County School Board
County of Alleghany, Virginia

This report is to follow up our recent audit of the cash basis financial statement of the County of Alleghany, Virginia School Activity Funds for the year ended June 30, 2018. During our audit we became aware of certain matters that should be brought to your attention. This report is primarily to state our findings and recommendations and to communicate them in writing.

ALL SCHOOLS

Receipts

Monies collected by teachers and other staff should be remitted to the central office in a timely manner, at a minimum by the next business day. Additionally, funds held overnight should be locked or otherwise safeguarded against theft. We noted at all schools there were some occasions where monies collected by teachers were not remitted to the central office in a timely manner and/or deposited to the bank in a timely manner. We recommend reminding staff of the need to remit and deposit funds in a timely manner.

CALLAGHAN ELEMENTARY SCHOOL - No Recommendations

SHARON ELEMENTARY SCHOOL - No Recommendations

MOUNTAIN VIEW ELEMENTARY SCHOOL - No Recommendations

CLIFTON MIDDLE SCHOOL

Athletic and Other Special Events

- The Report of Ticket Sales should be completed accurately. The Report of Ticket sales dated 9/7/2017 did not have an explanation on why there was an overage of $148.00. We recommend that if there is an instance where you are over/short that there is a note or documentation to explain why.

Fundraising Activities

- Staff should price yearbooks in order to cover costs associated with the purchase of the same. Additionally, adequate controls should be maintained over inventory to minimize any associated losses. The school's yearbook fund showed a loss for the year.

ALLEGHANY HIGH SCHOOL - No Recommendations

CONSOLIDATED CAFETERIA FUND - No Recommendations

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY *CERTIFIED PUBLIC ACCOUNTANTS*

Communication with Those Charged with Governance

To the County of Alleghany School Board
County of Alleghany, Virginia

We have audited the cash basis financial statement of the County of Alleghany, Virginia School Activity Funds for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 April 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County of Alleghany, Virginia School Activity Funds are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the County of Alleghany, Virginia School Activity Funds during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with 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 clearly trivial, and communicate them to the appropriate level of management. Our procedures disclosed no misstatements that required correction by management.

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 statement or the auditors' 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 July 11, 2018.

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 County of Alleghany, Virginia School Activity Funds' financial statement or a determination of the type of auditors' opinion that may be expressed on the statement, 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.

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 County of Alleghany, Virginia School Activity Funds' 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 were engaged to report on the detailed individual school statements of cash receipts, disbursements, and balances, 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 the cash basis of accounting, 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 statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

Restriction on Use

This information is intended solely for the use of the School Board ands School Officials and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
July 11, 2018

Accounting Update – Summary of Upcoming Pronouncements by the Governmental Accounting Standards Board (GASB)[1]

GASB STATEMENT NO. 83 – Certain Asset Retirement Obligations

Governmental Accounting Standards Board Statement 83 (effective for the 2018/2019 fiscal year) requires governments to consider certain asset retirement obligations (AROs). AROs result from the normal operations of tangible capital assets, whether acquired or constructed, and include legally enforceable liabilities associated with all of the following activities:

1. Retirement of a tangible capital asset
2. Disposal of a replaced part that is a component of a tangible capital asset
3. Environmental remediation associated with the retirement of a tangible capital asset that results from the normal operation of that capital asset.

A government should recognize an ARO when the liability is incurred and reasonably estimable. Incurrence of a liability is manifested by the occurrence of both an external obligating event and an internal obligating event resulting from normal operations. An obligating event refers to an event whose occurrence determines the timing for recognition of an ARO.

An external obligating event is one of the following:

- Approval of federal, state, or local laws or regulations
- Creation of a legally binding contract
- Issuance of a court judgment.

An internal obligating event includes placing that capital asset into operation and consuming a portion of the usable capacity by the normal operations of that capital asset.

In general terms, local governments should review currently existing assets (dams, treatment facilities, etc...) and determine if current laws and regulations require the government to decommission these assets when they are no longer in use. If it is determined that the government has asset retirement obligations (AROs), estimates of these costs should be provided for presentation in the financial statements by June of 2019. We encourage governments to begin their reviews early, such that necessary engineering studies can be completed for use in the financial statements in a timely manner.

[1] Source of information – Governmental Accounting Standards Board. Readers may obtain complete copies of these standards at: http://www.gasb.org/

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.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Effective Date

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

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.

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying 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.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable: a.

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short-Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB 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 that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises 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 the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the 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.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB STATEMENT NO. 89 – Accounting for Interest Cost Incurred Before the end of a Construction Period.

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

GASB STATEMENT NO. 90 – Majority Equity Interest

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.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.