



April 23, 2020

To the Finance and Audit Committee
Fairfax County Water Authority
Fairfax, Virginia

In connection with our audit of the financial statements of Fairfax County Water Authority (Authority) for the year ended December 31, 2019, we have the following comments and suggestions for your consideration.

New GASB Pronouncements

At December 31, 2019, the Governmental Accounting Standards Board (GASB) had issued several statements not yet required to be implemented by the Authority. Statements which might impact the Authority are as follows:

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.

Statement No. 87 will be effective for the Authority in fiscal year 2020. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

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.

Statement No. 89 will be effective for the Authority in fiscal year 2020.

GASB Statement No. 91, *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuers; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements with conduit debt obligations; and improving required note disclosures.

Statement No. 91 will be effective for the Authority in fiscal year 2021.

GASB Statement No. 92, *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements.

Statement No. 92 will be effective for the Authority in fiscal year 2021, with the exception of requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments, which are effective upon issuance.

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This report is intended solely for the information and use of management and the Finance and Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended December 31, 2019 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

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