



October 29, 2018

To the Honorable Mayor, Members of Council,
and Management
Town of Bridgewater, Virginia
Bridgewater, Virginia

In connection with our audit of the financial statements of the Town of Bridgewater, Virginia (Town) for the year ended June 30, 2018, we have the following comment for your consideration.

New GASB Pronouncements

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Town. The statements which might impact the Town are as follows:

Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

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

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

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

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

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

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

This Statement requires interest cost incurred before the end of a construction period be recognized as an expense in the period 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.

The requirements of Statement No. 89 are effective for financial statements for fiscal years beginning after December 15, 2019.

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

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2018 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

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