



October 29, 2019

To the Honorable Operations Board Members and Commissioners  
The Virginia Railway Express  
The Northern Virginia Transportation Commission  
The Potomac and Rappahannock Transportation Commission

In connection with our audit of the financial statements of the Virginia Railway Express (VRE) for the year ended June 30, 2019, we noted the following control deficiency.

***Bond Premium Amortization***

During our audit, it was noted the unamortized bond premium and deferred loss associated with the 2018 VRA Bond Series refinancing had not been amortized for the current year. Unamortized bond premiums and deferred losses are required to be amortized over the outstanding years of the bonds. Amortization of each of these items is unique and specific to each item. Subsequent to the adjustment, management has implemented the necessary procedures to ensure the unamortized premium and deferred loss is amortized properly in subsequent years.

The following are Governmental Accounting Standard Board (GASB) pronouncements we believe should be communicated to VRE.

***New GASB Pronouncements***

At June 30, 2019, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by VRE. The statements which might impact VRE 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. 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.

The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of Statement No. 89 should be applied prospectively.

**Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61***

The 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.

The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively.

**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 a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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This communication is intended solely for the information and use of management, Board Members and others within the VRE 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, 2019 and express our appreciation to everyone for their cooperation during this engagement.

*PBMares, LLP*

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