March 5, 2018

Mr. David Bean, Director of Research and Technical Activities
Project Number 9-5
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the proposed statement of the Governmental Accounting Standards Board (GASB, the Board), Accounting for Interest Cost during the Period of Construction (ED, the ED). The Board is to be commended for taking this step toward enhancing the relevance and comparability of information about capital assets and borrowing costs. I appreciate this opportunity to respond and my comments reflect my views as a former government finance officer and a current academician responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

While I don’t agree with the Board’s definition of an asset, as defined in Concepts Statement No. 4, Elements of Financial Statements, I do understand how the Board concluded construction period interest costs do not meet the definition. Based on my almost 25 years of auditing and working in government finance, the decision to acquire or construct a capital asset is not separate from the decision as to how to finance the asset (paragraph B6). A number of governments have capital asset policies and related debt management policies. Additionally, governments, more often than not, utilize a comprehensive planning process covering multiple years, which identifies capital assets needed, when they are needed, and how the acquisition of such assets is to be funded. Therefore, like ancillary charges, I believe these costs are part of putting the asset in service. Without the financing, the capital assets would not be acquired/constructed and therefore never placed in service.

Assuming the position in the ED where construction period interest costs are not assets, I don’t agree such costs do not also meet the definition of a deferred outflow of resources. As I noted above, the decision to construct a capital asset is made together with the funding decision. The construction period interest costs (actual or inherent) are only incurred for the purpose of acquiring/constructing a capital asset which will be used in a future reporting period. While I can see merit in the position construction period interest costs do not enhance the service capacity of the capital asset, I cannot see how it then follows the construction period interest costs are not applicable to a future reporting period.

Generally, I believe the proposed requirements will result in less time needed to prepare fund level financial statements using the economic resources measurement focus. However, I don’t think the time saved will be significant even during the construction period. Additionally, I agree the proposed requirements will reduce diversity in accounting for construction period interest costs between governmental activities and business-type activities.\(^1\)

On the other hand, I believe the proposed requirements will create another difference between accounting standards utilized by state and local governments and private sector entities. I believe the financial statement user community routinely compares government enterprise operations to private sector

\(^1\) I have never been opposed to requiring the capitalization of construction period interest for capital assets reported in the governmental activities statements.
counterparts and vice versa. One of the areas where this is common is in the area of utilities. While the proposed requirements may not affect “regulated” government utilities (paragraph B12), they would impact government utilities which are not regulated. “Public utilities”, by definition, are not generally regulated; therefore, the proposed requirements will affect a great number of public utilities. Under the proposed requirements, a public utility would report construction period interest in operations while a regulated private utility, subject to accounting standards of the Financial Accounting Standards Board, would capitalize such costs. The difference in accounting would create a difference between public utilities and regulated private utilities which does not exist under current accounting standards for these entities.

The proposed effective date is appropriate; however, I believe the final standard should be applied retrospectively. Prospective reporting of the proposed requirements will result in reporting assets using current standards and the proposed requirements. Since constructed capital assets are most likely very long-lived assets, the differences could exist for a great number of years. In addition, the two accounting methods would result in reporting the same type of asset differently simply due to a timing issue.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (407) 869-9254 or lkmdennis@gmail.com.

Sincerely,

Lynda M. Dennis, CPA, CGFO, PhD