NO. 370 | JUNE 2018

Governmental Accounting Standards Series

Statement No. 89 of the
Governmental Accounting
Standards Board

Accounting for Interest Cost Incurred before the End of a Construction Period

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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GOVERNMENTAL ACCOUNTING STANDARDS SERIES (ISSN 0886-2885) is published by the Financial Accounting Foundation. The full subscription rate is $240 per year. Send address changes to Governmental Accounting Standards Board—Publications, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

Summary

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and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement.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.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities.

How the Board Considered Costs and Benefits in the Development of This Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more relevant and comparable information about capital assets and the cost of borrowing for a reporting period as well as reduced complexity of the accounting requirements—outweigh potential initial and ongoing costs. In addition, the Board believes that the costs of applying the requirements generally will be less than the costs of applying current requirements for capitalization of interest cost. To further reduce the cost of implementation of the provisions, this Statement requires that the provisions be applied prospectively.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

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June 2018

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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June 2018

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June 2018

INTRODUCTION

1. The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement apply to the financial statements of all state and local governments.

3. This Statement supersedes Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* paragraph 6; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraphs 5–22 and footnotes 1–7 and 226; and *Implementation Guide No. 2015-1,* Questions 7.10.3–7.10.7 and Z.51.11. This Statement amends Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraph 18, and Statement 62, paragraphs 3 and 485.

Accounting for Interest Cost Incurred before the End of a Construction Period

4. In financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset.

5. 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

6. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied prospectively. For construction-in-progress, interest cost incurred after the beginning of the first reporting period to which this Statement is applied should not be capitalized.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

David A. Vaudt, *Chairman*
Jeffrey J. Previdi, *Vice Chairman*
James E. Brown
Brian W. Caputo
Michael H. Granof
Kristopher E. Knight
David E. Sundstrom

Appendix A

BACKGROUND

A1. Prior to the issuance of this Statement, governments capitalized interest cost in business-type activities and enterprise funds in accordance with GASB Statement 62. Those requirements were based on Financial Accounting Standards Board (FASB) Statements No. 34, *Capitalization of Interest Cost,* and No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* which were issued in 1979 and 1982, respectively. The approach taken in developing GASB Statement 62 was to adopt accounting and financial reporting requirements essentially as they existed in the applicable pre-November 30, 1989 FASB and American Institute of Certified Public Accountants pronouncements. The language of those pronouncements was modified as appropriate to recognize the effects of the governmental environment without affecting the substance of the provisions. As a result, at that time, the Board did not consider consistency of the provisions with GASB Concepts Statements.

A2. In December 2016, the Board added a project to reexamine the requirements for capitalization of interest cost to the practice-issue portion of the GASB's current technical agenda. Deliberations began in July 2017. Feedback on the project was provided by Governmental Accounting Standards Advisory Council members at their December 2016 and October 2017 meetings.

A3. In November 2017, the Board issued an Exposure Draft, *Accounting for Interest Cost during the Period of Construction.* The Board received 41 responses to the Exposure Draft from organizations and individuals. As discussed throughout Appendix B, comments and suggestions from stakeholder responses contributed to the Board's deliberations in developing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

B2. As discussed in Appendix A, the Board reconsidered the requirements in Statement 62 regarding capitalization of interest cost in business-type activities and enterprise funds. In addition, the Board reconsidered the accounting for interest cost incurred before the end of a construction period for government-wide statements (governmental and business-type activities) and fund statements (governmental, proprietary, and fiduciary funds). As a result, this Statement includes requirements that address both financial statements prepared using the economic resources measurement focus and those prepared using the current financial resources measurement focus.

B3. The Exposure Draft proposed requirements for "interest cost incurred during the period of construction," and some respondents to the Exposure Draft requested that the scope of the proposal be clarified. In accordance with Statement 62, in situations involving certain tax-exempt borrowings, interest cost was required to be capitalized before construction begins. Respondents raised questions as to whether such interest cost was intended to be considered "interest incurred during the period of construction" and, therefore, within the scope of the proposal. The Board noted that the Exposure Draft proposed that all requirements of Statement 62 related to capitalization of interest cost be superseded; therefore, the intent of the proposal was to replace those requirements of Statement 62. As such, the Board decided to clarify that this Statement applies to all interest cost that would have been capitalized in accordance with paragraphs 5–22 of Statement 62, including interest cost in situations involving certain tax-exempt borrowings. The Board clarified the scope and the title of the Statement by instead referring to "interest cost incurred before the end of a construction period."

Classification of Interest Cost

B4. In this project, the Board followed the hierarchy that was utilized when developing Statement No. 65, *Items Previously Reported as Assets and Liabilities,* and first considered whether interest cost incurred before the end of a construction period is an asset as defined in Concepts Statement No. 4, *Elements of Financial Statements.* Paragraph 8 of Concepts Statement 4 defines assets as "resources with present service capacity that the government presently controls." Present service capacity is described as an "existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission" (paragraph 9).

B5. The Board agreed that if considered separately from a capital asset, interest cost would not meet the definition of an asset because the cost itself is not a resource with present service capacity. Therefore, in determining whether interest cost incurred before the end of a construction period meets the definition of an asset, the Board considered whether that interest cost is an acquisition cost that is inseparable from the capital asset and thus enhances the service capacity of that asset. The Board concluded that interest cost incurred before the end of a construction period is a financing activity separate from the capital asset that does not enhance the present service capacity of an asset because the asset will have the same ability to provide services regardless of whether interest cost is incurred.

B6. Some respondents to the Exposure Draft disagreed with the Board's conclusion that interest cost does not meet the definition of an asset. Some of those respondents believe that interest cost is inseparable from the asset because, generally, the asset would not have been constructed without financing or that financing an asset enhances the present service capacity of the asset. The Board is aware that, in many cases, capital assets are constructed with financing and recognizes that the views of some respondents reflect the practical considerations associated with the construction of large-scale capital assets. However, the Board continues to believe financing does not increase the service capacity of the capital asset. Rather, in circumstances in which a capital asset is financed, the service capacity of that asset might be available earlier than if the construction of the asset had not been financed. The Board also noted that the requirements of this Statement do not prevent a government from borrowing; rather, the requirements stipulate that for financial reporting purposes, interest cost be recognized as an expense to separate the financing activity from the capital asset.

B7. The Board also considered differences between interest cost incurred before the end of a construction period and ancillary charges, which continue to be capitalized as part of the historical cost of a capital asset in accordance with paragraph 18 of Statement 34, as amended. Ancillary charges (for example, freight and transportation charges, site preparation costs, and certain professional fees) are directly attributable to the asset's acquisition. The Board believes that activities that generate ancillary charges enable the government to use the asset to provide services; therefore, those amounts are included in the asset's historical cost. That is, those activities enhance the service capacity of the capital asset.

B8. In addition, the Board believes that ancillary charges are different from interest cost incurred before the end of a construction period because interest cost is associated with the financing of a capital asset rather than with the preparation of the asset for use or the asset's ability to provide services. Some respondents to the Exposure Draft disagreed with the Board's conclusion that interest cost is different from ancillary charges; those respondents generally believe that interest cost should continue to be capitalized. Other respondents to the Exposure Draft commented that, in their experience, interest cost is more significant (that is, a larger dollar amount) than ancillary charges or more closely associated with the capital asset than ancillary charges because decisions about whether to construct a capital asset often may be influenced by the ability to borrow to finance the cost of the construction. Those respondents to the Exposure Draft believe that those factors support continuing to capitalize interest cost.

B9. The Board believes that, although linked in some cases, a decision to acquire or construct a capital asset still is separate from a decision about how to finance that asset. A building can be constructed without borrowing, for example, with grant proceeds or existing resources. However, after a decision has been made to acquire or construct a capital asset, ancillary charges would be incurred regardless of how the acquisition or construction is financed. For example, a building cannot be constructed without preparing or obtaining plans, permits, and blueprints; clearing and preparing the construction site; and transporting the raw construction materials to the site. The Board also does not believe that the relative sizes of interest cost and ancillary charges are relevant to determining the appropriate accounting.

B10. After concluding that interest cost incurred before the end of a construction period does not meet the definition of an asset, the Board next considered whether that interest cost meets the definition of a deferred outflow of resources. A deferred outflow of resources is defined in paragraph 32 of Concepts Statement 4 as "a consumption of net assets by the government that is applicable to a future reporting period." The Board concluded that interest cost incurred before the end of a construction period does not meet the definition of a deferred outflow of resources because it is a periodic cost applicable to the *current* reporting period. Incurring interest before the end of a construction period does not, in the view of the Board, change the reporting period to which the cost relates. Therefore, based on the hierarchy, the Board concluded that interest cost incurred before the end of a construction period meets the definition of an outflow of resources in paragraph 24 of Concepts Statement 4: "a consumption of net assets by the government that is applicable to the reporting period" (footnote reference omitted).

B11. Some respondents to the Exposure Draft contend that if interest cost is not capitalized, it should be reported as a deferred outflow of resources. Generally, those respondents believe that reporting a deferred outflow of resources would better reflect what they refer to as the "matching principle." That is, interest cost would be recognized in expense in the same reporting period as revenue that is generated in part by the use of the capital asset. Some respondents to the Exposure Draft asserted that reporting a deferred outflow of resources would be, in their view, more representative of their operations and rate-making practices because the costs they incur for interest are recovered in future periods.

B12. The Board noted that the "matching principle" (that is, matching expenses with associated revenue) is not part of the GASB's conceptual framework and is not an objective of state and local government financial reporting. Although deferred outflows of resources result in the recognition of expense in the reporting periods to which those amounts relate, reporting a deferred outflow of resources is not based on when an associated revenue is recognized. The Board also considered whether the requirements of this Statement are consistent with the concept of interperiod equity described in Concepts Statement No. 1, *Objectives of Financial Reporting.* The Board continues to believe that interest cost is a result of a periodic financing activity and that recognizing interest cost as an expense in the period in which it is incurred is consistent with the concept of interperiod equity by associating the expense with the period to which that interest relates.

Other Considerations

B13. In addition to considering whether interest cost meets the definition of an asset or the definition of a deferred outflow of resources established in Concepts Statement 4, the Board considered certain other factors in determining whether interest cost incurred before the end of a construction period should be capitalized, including (a) the comparability of information in government-wide financial statements and comparability with other standards setters, (b) relevance and the effects of the requirements of this Statement on rate making, (c) the relationship of the requirements of this Statement to the requirements for regulated operations, and (d) complexity.

Comparability

B14. Regarding comparability of capital asset information in government-wide financial statements, accounting requirements for interest incurred before the end of a construction period were different for business-type activities and governmental activities prior to the issuance of this Statement. Consequently, if a government constructed two identical assets—one associated with governmental activities and the other with business-type activities—those assets could have different historical costs because interest cost would be capitalized only for the capital asset used in business-type activities. The Board believes it is misleading for a government to assign different values to identical assets constructed under similar circumstances and noted that the definition of an asset in Concepts Statement 4 applies equally to governmental and business-type activities.

B15. Some respondents to the Exposure Draft do not believe that comparability between governmental activities and business-type activities at the government-wide level is relevant. Some of those respondents commented from the perspective of a stand-alone government that is a business-type activity. Generally, those respondents believe that it is more relevant to compare with private-sector or international counterparts.

B16. The Board noted that in developing the objectives of financial reporting, it decided not to establish separate objectives for business-type activities. Further, within the context of this Statement, the Board disagrees that there is a significant difference between a stand-alone government that is a business-type activity and a business-type activity that is reported as an enterprise fund of a general purpose government. Although general purpose governments may not construct the same types of capital assets, those governments do construct capital assets, including infrastructure, and often finance such construction.

B17. The Board recognizes that the requirements regarding the treatment of interest cost in this Statement are a change from current practice and create differences with some other standards-setters' guidance. However, as discussed above, the Board believes the classification of interest cost as an outflow of resources, rather than an asset, is consistent with the GASB's definitions of elements of financial statements in Concepts Statement 4.

Relevance and Rate Making

B18. Some respondents to the Exposure Draft believe that the requirements would make amounts presented in financial statements less relevant because the requirements are inconsistent with their rate-making practices or, as previously noted, violate the "matching principle." As discussed in paragraph B12, matching expenses to revenues is not an objective of governmental financial reporting and, in the view of the Board, does not enhance the relevance of information presented for financial reporting purposes. The Board has concluded that interest cost is the result of a periodic financing activity and, therefore, recognizing all interest cost as an expense in the period in which it is incurred provides the most relevant information for users to be able to assess a government's cost of borrowing for a period. In the same way, the Board believes that including interest cost in the historical cost of a capital asset decreases the relevance of that information because instead of reflecting only the value of the asset constructed, it also includes a financing component.

B19. Other respondents to the Exposure Draft expressed concerns that the requirements of this Statement would affect the rates that a government will be able to charge. The Board noted that the requirements do not address rate making. However, the Board is aware that some governments may have agreements that are based on aspects of generally accepted accounting principles or that some existing agreements may prohibit recovery of interest cost until an asset is placed into service. Further, the Board is mindful that time might be needed to modify those agreements. Therefore, the Board considered those concerns in relation to the effective date of this Statement. (See paragraph B33.)

Regulated Operations

B20. The Board also considered the effects of this Statement on business-type activities that have regulated operations that meet the criteria set forth in paragraph 476 of Statement 62 regarding regulated operations and elect to apply the provisions of paragraphs 476–500 of Statement 62. The Board concluded that provided the criteria for regulated operations are met and the entity has elected to apply the related provisions of Statement 62, the requirements in paragraph 485 of that Statement regarding capitalization of qualifying interest cost as a regulatory asset should remain applicable.

B21. Some respondents to the Exposure Draft believe that the requirements of Statement 62 for regulated operations should be modified. Some of those respondents believe that the criteria in paragraph 476 of that Statement should be expanded or clarified. Those respondents generally represent governments that do not meet the criteria to apply the guidance for regulated operations but believe that the expense recognition pattern achieved by application of those requirements is warranted in their circumstances. Other of those respondents believe that the requirements in paragraph 485 of Statement 62 that specifically address resources used in construction should be modified in a manner that would, in their view, enhance clarity for entities applying the regulated operations guidance. Reexamination of the requirements for regulated operations is outside the scope of this project, and the Board does not believe that whether a government can apply those requirements should be a factor in establishing the accounting requirements for interest cost incurred before the end of a construction period.

Complexity

B22. The Board believes that this Statement eliminates the complex accounting for interest cost incurred before the end of a construction period. Prior to the issuance of this Statement, the amount of interest capitalized generally was calculated by determining an appropriate capitalization rate and applying that rate to the "average of accumulated outlays" for the assets constructed or acquired during the period. Additional complexity related to identifying qualifying assets, measuring the amount to be capitalized, and determining the capitalization period arose in situations in which the construction or acquisition was financed with tax-exempt borrowings. Therefore, the Board believes eliminating the requirement to capitalize interest in business-type activities and enterprise funds reduces the complexity of accounting requirements for capital assets.

B23. Some respondents to the Exposure Draft disagreed that the requirements would meet the stated objective of simplification or that they would reduce complexity. Some of those respondents believe that the requirements of Statement 62 for capitalization of interest cost are not complex or that because systems already are in place to capture capitalization of interest cost, simplification is not achieved by removing the requirements to capitalize interest cost. Other of those respondents expressed concerns that the requirements of this Statement may result in some governments applying the requirements for regulated operations, which, in the view of those respondents, are more complex than the requirements of Statement 62 for capitalization of interest cost that this Statement supersedes. Still other respondents believe that, in their view, any simplification gained from the requirements would be outweighed by a loss of relevant information.

B24. The Board acknowledges that whether simplification is achieved may depend on the circumstances of an individual government. However, the Board believes that, notwithstanding changes that may be needed at transition for some governments, removal of requirements to perform calculations (as was required by Statement 62) inherently is less complex than retaining those requirements. The Board recognizes that the election to apply the requirements for regulated operations is available to governments that meet the criteria in Statement 62. Therefore, for governments that meet those criteria, the requirements of this Statement might cause such a government to reevaluate whether to apply the regulated operations guidance of Statement 62. However, the reporting of interest cost incurred before the end of a construction period is only one factor relevant to a government's evaluation. The Board believes the requirements of this Statement should not be driven by the decision that a government might make with regard to the Statement 62 election to apply the requirements for regulated operations. Regarding concerns about relevance, the Board believes that, as discussed in paragraph B18, the information provided by this Statement enhances the relevance of information about capital assets and the cost of borrowing for a reporting period.

Other Concerns

B25. Some respondents to the Exposure Draft expressed concerns that an inability to capitalize interest cost could affect a government's ability to borrow or its bond rating because of the negative effect on their net position. The Board questioned the effect that the accounting requirements will have on such evaluations because all governments are required to apply this Statement. On balance, the Board believes that this Statement will enhance the decision-usefulness of the information provided to users.

B26. Some respondents requested that the Statement specify whether interest cost should be classified as an operating or a nonoperating expense in a resource flows statement of a business-type activity or an enterprise fund. The Board determined that this topic is outside the scope of this project and does not believe it would be appropriate to separately address classification of interest cost incurred before the end of a construction period as part of this Statement.

Considerations Related to Benefits and Costs

B27. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B28. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B29. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B30. Regarding the expected benefits of this Statement, the Board believes that the requirements will benefit users by providing enhanced relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The Board believes that preparers and auditors will benefit from the removal of the requirement to capitalize interest because this change will reduce complexity in accounting for capital assets.

B31. Some respondents expressed concerns about the potential cost and complexity associated with updating accounting systems or managing differences between financial reporting and regulatory reporting. The Board recognizes that some effort may be needed, particularly during implementation, to update accounting systems or develop a mechanism for tracking a difference between financial and regulatory reporting (similar to any other difference between financial and regulatory reporting). However, the Board does not anticipate that ongoing application of the requirements will result in significant costs or effort. The Board believes that the prospective transition approach mitigates implementation costs. (See paragraph B34.) Furthermore, the Board believes that over time, the costs of applying this Statement generally will be less than the costs of applying the capitalization requirements of Statement 62 because the requirements of this Statement are less complex. In addition, as discussed in paragraph B33, the Board modified the effective date to provide a longer implementation period, which may further mitigate implementation costs.

B32. Considering the benefits of providing more relevant and comparable information about capital assets and the cost of borrowing for a reporting period and the anticipated implementation and ongoing costs, the Board believes that the expected benefits of this Statement justify the perceived costs.

Effective Date and Transition

B33. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The Exposure Draft proposed an effective date for reporting periods beginning after December 15, 2018. Some respondents to the Exposure Draft expressed concerns with a period of only six months between issuance of the Statement and the proposed effective date, particularly given that certain agreements may need to be adjusted in circumstances in which governments recover interest cost in future periods through rates charged to customers. To address the concerns of those respondents, the Board modified the effective date to be for periods beginning after December 15, 2019. The Board noted that some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

B34. With respect to transition, the Board concluded that it is appropriate to require prospective application of the provisions of this Statement. In developing transition provisions, the Board also considered a retroactive approach and a modified prospective approach. The Board concluded that a prospective approach would be less costly than a retroactive approach because a prospective approach does not require restatement of any balances (including capital assets that are in service, construction-in-progress, and accumulated depreciation) or adjustments to beginning balances to remove interest previously capitalized. For the modified prospective approach, the requirements would have been applicable only to projects initiated after the beginning of the reporting period to which this Statement is first applied (that is, for construction-in-progress, governments would have continued to apply the requirements of Statement 62 and to capitalize interest until those assets were placed into service). However, the Board concluded that, unlike the prospective approach (which results in comparable borrowing cost information in the first period to which this Statement is applied), a modified prospective approach that would require interest cost to continue to be capitalized would be counter to the objectives of (a) enhancing the relevance and comparability of borrowing cost information for the reporting period and (b) simplifying accounting requirements. Although the transition requirements in this Statement result in capitalization of interest cost for construction-in-progress only to the implementation date, the Board believes that the only transition approach that would enhance comparability of capital assets at the implementation date is a retroactive approach that removes, for all capital assets (both those in service and in progress), the effects of interest previously capitalized. Some respondents to the Exposure Draft believe that retroactive application of the requirements would be more appropriate. However, as discussed above, the Board concluded that the costs of a retroactive approach outweigh the benefits of the information that would be provided.

Appendix C

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—December 2019 Update

C1. The instructions that follow update the December 31, 2017 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

SUMMARY STATEMENT OF PRINCIPLES SECTION 1100

Sources: [Remove GASB Statement 37.]

[Add GASBS 89, ¶4 as an amending source of GASBS 34, ¶18; remove GASBS 37, ¶6 from sources.]

* * *

REPORTING CAPITAL ASSETS SECTION 1400

Sources: [Remove GASB Statement 37; add GASBS 89.]

[In Statement of Principle, Valuation of Capital Assets, add GASBS 89, ¶4 as an amending source of GASBS 34, ¶18; remove GASBS 37, ¶6 from sources.]

.102 [Insert the following after the third sentence:] Interest cost incurred before the end of a construction period should not be capitalized as part of the asset's historical cost. [GASBS 34, ¶18, as amended by GASBS 72, ¶79 and GASBS 89, ¶4; GASBS 72, ¶68; GASBS 89, ¶4]

[Replace paragraphs .120–.137, including headings and footnotes, with the following; renumber subsequent paragraphs and footnotes.]

Interest Cost Incurred before the End of a Construction Period

.120 [GASBS 89, ¶4]

.121 [GASBS 89, ¶5]

[Delete Questions .702-8 and .702-9; renumber subsequent questions.]

[Replace headings .711–.717 and associated text with the following; renumber subsequent headings and associated questions.]

.711 Interest Cost Incurred before the End of a Construction Period

No questions assigned.

[Delete current Question .722-3.]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

[Delete Question .715-1; renumber subsequent questions.]

* * *

INTEREST COSTS—IMPUTATION SECTION I30

See also: [Delete the reference to Section 1400.]

* * *

REGULATED OPERATIONS **SECTION Re10**

.110 [Replace the fourth sentence, including footnote 6, with the following; renumber subsequent footnotes.] In such cases, the amounts capitalized for rate-making purposes as part of the cost of acquiring the assets should be capitalized as a regulatory asset for financial reporting purposes. [GASBS 62, ¶485, as amended by GASBS 63, ¶8 and GASBS 89, ¶4]

* * *

C2. The instructions that follow update paragraph C1 of Statement No. 87, *Leases,* for the provisions of this Statement. Statement 87 is effective for reporting periods beginning after December 15, 2019.

* * *

REPORTING CAPITAL ASSETS **SECTION 1400**

[Do not apply the instructions for paragraphs .120 and .121.]

* * *

Comprehensive Implementation Guide—December 2019 Update

C3. The instructions that follow update the December 31, 2017 *Comprehensive Implementation Guide* for the provisions of this Statement.

* * *

[Delete Questions 7.10.3–7.10.7 and Z.51.11.]