

Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

March 29, 2019

OSRAP MEMORANDUM 19-16

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director of Management & Finance DOA

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Effective FY 2019)

In March 2018, GASB issued Statement No. 88 (GASB 88), *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB 88 redefines debt for note disclosure purposes as a liability that arises 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 the contractual obligation is established. Leases are excluded in this definition of debt.

In addition to existing required disclosures, GASB 88 adds the following debt disclosures in the notes to the financial statements:

- Amount of unused lines of credit.
- Assets pledged as collateral for debt.
- 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.

Also, the disclosures for direct borrowings and direct placements should be separated from other forms of debt. GASB 88 defines **direct borrowings and direct placements** as debt borrowings that have terms that are negotiated directly with the investor or lender and are not offered for public sale. These direct borrowings and placements may have different risks associated with them than more traditional types of debt like general obligation bonds or revenue bonds. The direct borrowings and direct placements will be shown as a separate line item in the Long-Term Debt note disclosures, and will be combined with the other bonds or notes payable on the face of the financial statement. They will also be separated on the bond and note amortization schedules.

GASB 88 is effective for periods beginning after June 15, 2018 or for fiscal year 2019 for the State's Comprehensive Annual Financial Report. GASB 88 can be found on [GASB's website](#).

Below is a sample illustration from GASB 88, Appendix C.

This example is illustrative only and is not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in this Statement and in other GASB pronouncements, in addition to those shown in this illustration, are required, if applicable.

Note Disclosures Related to Debt

[Note: This illustration includes note disclosures required, or amended, by this Statement.]

Assumptions

The County government has outstanding general obligation bonds and notes from direct borrowings and direct placements related to governmental activities totaling \$12,530,000 and \$941,918, respectively, and notes from direct borrowings related to business-type activities totaling \$70,400. The County has pledged an undeveloped lot zoned for commercial use as collateral for the notes from direct borrowings related to business-type activities. The County's outstanding notes from direct borrowings related to business-type activities have a termination event that changes the timing of repayment of outstanding amounts to become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year. The County's outstanding notes from direct borrowings related to business-type activities also contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs. All outstanding notes from direct borrowings and direct placements contain an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the County is unable to make payment.

The County also has an outstanding line of credit in the amount of \$1,500,000.

Disclosure

Changes in long-term obligations for the year ended June 30, 20X2, are as follows:

	Balance at July 1, 20X1	Increases	Decreases	Balance at June 30, 20X2	Due within One Year
Governmental activities:					
General obligation bonds	\$21,500,000	\$ -	\$ 8,970,000	\$ 12,530,000	\$ 7,050,000
Notes from direct borrowings and direct placements	1,412,877	-	470,959	941,918	470,959
Total	<u>\$22,912,877</u>	<u>\$ -</u>	<u>\$ 9,440,959</u>	<u>\$ 13,471,918</u>	<u>\$ 7,520,959</u>
Business-type activities:					
Notes from direct borrowings	\$ 76,800	\$ -	\$ 6,400	\$ 70,400	\$ 6,400

The County's outstanding notes from direct borrowings and direct placements related to governmental activities of \$941,918 contain a provision that in an event of default, outstanding amounts become immediately due if the County is unable to make payment.

The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of \$70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately. The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principle amount to become immediately due if the lender determines that a material adverse change occurs.

The County also has an unused line of credit in the amount of \$1,500,000.

Debt service requirements on long-term debt at June 30, 20X2, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
20X3	\$ 7,050,000	\$ 497,700	\$ 470,959	\$ 30,024	\$ 6,400	\$ 2,640
20X4	4,880,000	215,950	470,959	10,008	6,400	2,400
20X5	50,000	21,000	-	-	6,400	2,160
20X6	50,000	19,250	-	-	6,400	1,920
20X7	50,000	17,500	-	-	6,400	1,680
20X8-20Y2	250,000	52,500	-	-	32,000	4,800
20Y3-20Y7	200,000	17,500	-	-	6,400	240
	<u>\$ 12,530,000</u>	<u>\$ 841,400</u>	<u>\$ 941,918</u>	<u>\$ 40,032</u>	<u>\$ 70,400</u>	<u>\$ 15,840</u>

If you have any questions, please contact Ms. Pam Stephens at (225) 342-0712 (e-mail: Pam.Stephens@la.gov) or Mark Rhodes at (225) 342-0711 (email: Mark.Rhodes@la.gov).

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