



Memorandum # 2019-08

To: North Carolina Local Governments and Public Authorities and their Independent Auditors

From: Sharon Edmundson, Director, Fiscal Management Section

Subject: GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

Date: May 6, 2019

The Governmental Accounting Standards Board (GASB) has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The goal of this Statement is to provide users of the financial statements with additional important information related to debt. The disclosures required by Statement 88 are effective for reporting periods beginning after June 15, 2018, which for most North Carolina local governments and public authorities means for fiscal years ending June 30, 2019 or later. GASB Statement 88 provides the following definition of debt for purposes of disclosure:

For purposes of disclosures in notes to financial statements, debt is defined 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. For disclosure purposes, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable. (Governmental Accounting Standards Board Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, 2018).

Review of Current Debt Disclosure Requirements

GASB Statement No. 34, paragraph 119 requires certain information about long-term liabilities (including debt) to be disclosed; this includes: beginning- and end-of-year balances, increases and decreases, and portions of each item that are due within one year. Statement No. 38, paragraphs 10 and 12 require additional information to be disclosed in the notes. Paragraph 10 requires disclosure of principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Paragraph 12 specifically relates to short-term debt and requires a schedule of changes in short-term debt (disclosing beginning- and end-of-year balances, increases and decreases), as well as the purpose for which the debt was issued.

New Debt Disclosure Requirements

Statement 88 emphasizes that debt related disclosures in notes to financial statements should separate information regarding direct borrowings and direct placements from other types of debt. In addition to currently required disclosures, units should also include information regarding:

- 1) amount of unused lines of credit (this disclosure is not limited to lines of credit associated with debt).

Note: this requirement is not applicable to most units in NC except charter schools.

- 2) assets pledged as collateral for the debt (this disclosure does not include assets to be constructed with the related debt proceeds)

- 3) terms specified in debt agreements related to significant events of default with finance related consequences, as well as termination events with finance related consequences, and any subjective acceleration clauses.

If you have question or need further guidance, please contact our staff at 919-814-4299.

Appendix C

ILLUSTRATION

C1. This appendix illustrates certain requirements of this Statement. 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 principal 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	\$ 2,840
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>