



## GASB Exposure Draft Offers Guidance on Debt

By Todd Buikema

The GASB has received feedback from users of state and local government financial statements that governments may face risks with debt agreements that are not disclosed in the financial statements — risks that could affect their credit profiles.

The Governmental Accounting Standards Board (GASB) released an Exposure Draft (ED) in late June 2017, titled *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

The GASB has received feedback from users of state and local government financial statements that governments may face risks with debt agreements that are not disclosed in the financial statements — risks that could affect their credit profiles. For example, one of the requirements of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, is to disclose principal and interest repayment schedules for its debt to maturity; however, there may be an accelerated repayment of the debt under certain circumstances. Currently, the event and the accelerated repayment are not required to be disclosed in the notes to the financial statements. In the *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ED, the GASB has proposed that state and local governments provide the following additional disclosures regarding debt in the notes to the financial statements:

- Amount of unused lines of credit.
- Collateral pledged as security for debt.
- Terms specified in debt agreements related to significant:
  - Events of default with finance-related consequences.
  - Termination events with finance-related consequences.
  - Subjective acceleration clauses.

Due to the inherent differences between direct borrowings and direct placements of debt, and debt sold in the public markets, the ED also requires governments to provide separate note disclosures for these transactions. Governments would be required to segregate direct borrowings and direct placements of debt in the required schedule of changes in long-term debt.

To clarify which liabilities are to be considered debt for disclosure in the notes to the financial statements, GASB has provided a definition of debt in the ED:

Debt is a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment 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 or trade accounts payable.

GFOA is supportive of the proposed guidance in the ED and has offered some suggestions to GASB about how to improve the guidance before it is made final. The proposed disclosure requirements of the ED also complement the GFOA best practices, *Understanding Your Continuing Disclosure Responsibilities* (available at [gfoa.org](http://gfoa.org)), as it relates to recommended disclosures for direct placements and lines of credit. ■

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