



University of California
**Governmental Accounting Standards Board (GASB) Statement No. 88,
*Certain Disclosures Related to Debt, including Direct Borrowings and
Direct Placements***

Issues Resolution Memo No. 88-1

Issued: January 2019

BACKGROUND

GASB Statement No. 88 (GASB 88), *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for the University's fiscal year beginning July 1, 2018. This Statement is meant to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

DEFINE ISSUES

The University must determine whether GASB 88 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

AUTHORITATIVE GUIDANCE AND APPROACH

Definition of debt for purpose of disclosures:

GASB 88 covers debt obligations of governments, including direct borrowings and direct placements. For disclosure purpose, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable.

Debt:

For purpose 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. A debt that has variable interest rate, or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount of the debt to be settled from being considered fixed at the date the contractual obligation is established.

Direct borrowings and direct placements:

Direct borrowings (for example, the University entering into a loan agreement with a lender) and direct placements (for example, the University issuing a debt security directly to an investor) have terms negotiated directly with the lender or investor and are not offered for public sale.



Issues Resolution Memo No. 88-1

Issued: January 2019

Disclosure Requirements of Notes to Financial Statements:

The University should disclose in notes to financial statements summarized information about the following items in addition to other requirements to disclose information related to debt in notes to financial statements:

- a. Amount of unused lines of credit
- b. Assets pledged as collateral for debt
- c. Terms specified in debt agreements related to significant
 - i. events of default with finance-related consequences
 - ii. termination events with finance-related consequences
 - iii. subjective acceleration clauses

The University should also separately disclose information related to (a) direct borrowings and direct placements of debt from (b) other debt.

ANALYSIS AND CONCLUSION

Currently, the University does not have direct placements, and terms specified in debt agreements related to significant (i) events of default with finance-related consequences, (ii) termination events with finance-related consequences, and (iii) subjective acceleration clauses.

The University will continue to disclose the amount of unused lines of credit, pledged revenue as collateral of debt (no other collateral requirements at this time) and direct borrowings on the Merced 2020 arrangement.

Implementation of GASB 88 has no impact to the University's (including its Medical Centers') financial statements.

The University will annually assess to determine whether the University has additional disclosure related to GASB 88.