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November 02, 2018

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 26-6
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of the Governmental Accounting Standards Board *Conduit Debt Obligations*

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to GASB's exposure draft *Conduit Debt Obligations*. ALGA represents 272 audit organizations comprising more than 2,200 individuals. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the *Conduit Debt Obligations* exposure draft in its entirety. Overall, we concur that this proposed statement will standardize financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, and will assist stakeholders' in determining whether a given financing is, in fact, a conduit debt obligation. We also agree the revised disclosure requirements will provide financial statement users with better information regarding the commitment extended by issuers and the likelihood of fulfillment of the commitments.

We offer a recommendation, with general comments, below that we believe will add clarity to the statement.

In paragraph 6 on page 2, we agree that there should be criteria for additional commitments which change the nature of conduit debt from one that is not reported on financial statements to one that is.

However, the criteria as written infers that a significant debt would turn into a liability for the issuer when they make a single payment, as such payment would be considered an appropriation pledge or a moral obligation pledge if acted on by a governing body – and such inference can have significant implications on an issuer. This inference does not appear to be the intent of this proposed statement when such payment does not also involve an issuer's agreement to take on future debt payment obligations.

Therefore, we recommend adding a sentence to help explain that an additional commitment is not a single payment when the issuer has no ongoing obligation. Without this, an issuer may feel prohibited from making a one-time payment to save a project funded by conduit debt for fear that such one-time payment would turn a non-liability into a significant liability. Such a transaction could drastically skew the accuracy of a financial statement and can lead an issuer to stand by and allow conduit debt funded projects to default for fear of any one-time assistance resulting in a significant debt obligation becoming a liability of the issuer.

We feel that this is similar to a government official making a public statement implying that the government would support debt service payments, which the Board rejected as an additional commitment. The nuance here is that at no time does a one-time payment change the legal authority of debt holders to go after the issuer for debt payments. This would be different if the issuer agreed to take responsibility for any payments should the third-party default.

We did not feel that classifying conduit debt as a liability because of a non-material appropriation of the issuer with no further contractual obligation for future payments was similar to other type of debts as mentioned in paragraph B8 on page 11. Other debts establish the issuer as the primary responsible entity for payments or enterprise projects controlled by the issuer when revenue type debt is incurred and secured by the enterprise project's revenue. In the case of this statement, the proposed statement does not recognize a conduit debt liability for the issuer when the payment responsibility falls on the third-party with no further commitment by the issuer. Thus, a one-time payment with no further payment or debt obligations on the issuer should also be considered the same unless some other action is taken to convert the issuer from just a conduit for the debt to the party ultimately responsible for debt payments.

Respectfully submitted,

Nicole Rollins
Chair, Professional Issues Committee

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