

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

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GOVERNOR



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COMMISSIONER OF ADMINISTRATION

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**OSRAP MEMORANDUM 18-26**

**TO:** Fiscal Officers  
All State Entities

**FROM:** Afranie Adomako, CPA  
Director of Management and Finance

**SUBJECT:** Implementation of Governmental Accounting Standards Board (GASB)  
Statement 86, *Certain Debt Extinguishment Issues*

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, to improve consistency in accounting and financial reporting for in-substance defeasance of debt. GASB 86 specifically establishes guidelines for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the purpose of extinguishing debt. The standard also addresses the treatment of prepaid insurance on extinguished debt as well as the additional note disclosures that will be required. This standard will specifically be of interest to fiscal officers of the discretely presented component units and the enterprise funds that issue bonds.

GASB Statement No. 7, *Advance Refundings Resulting in the Defeasance of Debt*, requires that debt be considered defeased in-substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust is also required to meet certain conditions for the transaction to be considered an in-substance defeasance, including the use of essentially risk-free monetary assets as discussed below. GASB Statement No. 86 establishes essentially the same requirements as GASB Statement No.7, but the guidance covers instances when a government places cash and other monetary assets acquired with **only existing resources in an irrevocable trust, rather than using refunding debt proceeds**. Governments preparing financial statements using the economic resources measurement focus should also recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in-substance as a separately identified gain or loss in the period of defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to the financial statements in the period of the defeasance. In all periods following such defeasance, the amount of debt that remains outstanding at period-end should be disclosed.

For in-substance defeasance, the trust generally holds only monetary assets that are essentially risk-free. The GASB standard limits essentially risk-free monetary assets to direct obligations of the U.S. government, obligations guaranteed by the U.S. government, and securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, then governments should disclose that fact in the period in which the debt is defeased in-substance. In future periods, governments should also disclose the amount of debt defeased in-substance that remains outstanding for which that risk of substitution exists. This disclosure requirement applies regardless of how the cash and other monetary assets placed in the trust were acquired.

One last issue addressed by GASB Statement No. 86 is prepaid insurance related to extinguished debt. When governments extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this statement requires that any such prepaid insurance related to the extinguished debt be included in the net carrying value amount of the debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

GASB 86 is effective for financial statements for fiscal years beginning after June 15, 2017 (FY 2018). GASB Statement 86 can be found on GASB's website at the following web address: <http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391>. You may contact Mr. Sean Langlois at (225) 342-5509 or via email at [Sean.Langlois@la.gov](mailto:Sean.Langlois@la.gov) with any questions.

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