

Michigan Committee on Governmental Accounting and Auditing Statement No. 8

Issued By

State Treasurer
State of Michigan
February 2001

NO-COMMITMENT DEBT OR CONDUIT DEBT

BACKGROUND:

1. In 1978, MCGAA issued Statement No. 1, *Auditing and Financial Disclosure for Industrial Revenue Bonds*, to address reporting of one type of no-commitment debt or conduit debt issued by local units of government within the State of Michigan.
2. In August, 1985, the Governmental Accounting Standards Board (GASB) issued Interpretation No. 2, *Disclosure of Conduit Debt Obligations*
 - a. This pronouncement applies to all forms of debt instruments issued by a state or governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuers' financial reporting entity.
 - b. It permits limited disclosure where the current amounts outstanding are not determinable or cannot reasonably be estimated.
 - c. It also permits issuers that, prior to 1996, did report conduit debt as liabilities (along with related assets) to continue this practice for existing and future conduit debt.
 - d. This pronouncement requires a general description of the conduit debt transactions in the notes to the financial statements.

CONCLUSION:

3. Due to the comprehensive scope of GASB Interpretation No. 2, the general purpose financial statement accounting and disclosure guidance of MCGAA Statement No. 1 is considered to be superseded by GASB Interpretation 2.
4. If supplementary information includes schedules of repayment of conduit debt, such schedules should be clearly labeled as "conduit debt."
5. The auditing guidance of MCGAA Statement No. 1 is considered to be superceded, as generally accepted auditing standards address the nature and extent of procedures to be applied to existence of contingencies, such as debt defaults, and, the adequacy of financial statement disclosures regarding contingencies.
6. This Statement is effective upon issuance.

This statement was adopted in February 2001 by the members of the Michigan Committee on Governmental Accounting and Auditing.

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