

Account Changes Required for the Implementation of FASB ASU 2015-03

In April of 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03 (ASU 2015-03). ASU 2015-03 changes the way debt issuance costs are reported. Debt issuance costs, prior to this notice, were reported on the balance sheet as assets and amortized over the life of the loan(s). ASU 2015-03 requires these costs to be reported on the liability side of the balance sheet as a discount to the debt. Amortization of the discount will be reported as interest expense. ASU 2015-03 is effective for financial statements with fiscal years beginning after December 15, 2015.

The REAC FASS-FHA team is modifying the FASSUB system to align it with ASU 2015-03. FASS-FHA staff received invaluable assistance from industry experts in deciding what changes needed to be made to the current chart of accounts. After carefully weighing input from several sources we decided to offer two different financial reporting options:

1. Discount each debt obligation individually
2. Discount debt obligations collectively

Using the first approach submitters will remove debt issuance costs from the asset side of the balance sheet and will transfer them to the liabilities side of the balance sheet by discounting the principal balance of each debt obligation to which the costs apply. In the second approach submitters will remove the costs from the asset side of the balance sheet and transfer the entire balance to a new account on the liabilities side of the balance sheet entitled Debt Issuance Costs. The Debt Issuance Costs account will then be subtracted from debt obligations to arrive at total long-term liabilities. Both approaches will require submitters to amortize these costs as an increase in interest expense on the statement of operations.

Several changes will be made to the current chart of accounts including the following:

- Account 1520 – Deferred Financing Costs, will be deleted at a future date*
- Account definitions for several long-term mortgage and loan accounts will be amended to include the verbiage: “This account may be shown as net of unamortized debt issuance costs”
- Account 2340 – Debt Issuance Costs will be added
- The business rules for account 2300T – Total Long-term Liabilities will be amended to subtract the new account 2340 from total liabilities
- Account definitions for interest expense accounts will be modified indicating that these accounts should also include amortization of debt issuance costs.
- The account definition for Account 6610 will be modified to strike the reference to “loan fees”
- Account S1200-486 – Amortization of Debt Issuance Costs will be added to the statement of cash flows (indirect method section)
- The business rules for account S1200-610 – Net Cash provided by (used in) Operating Activities will be modified to add in the new account S1200-486

These account changes will be implemented in the evening of October 6. The specific account changes are summarized in the following chart (changes are shown in red):

Account number	Account Name	Account Definition
1520	Deferred Financing Costs	This account will be deleted at a future date.
2310	Notes Payable (Long Term)	This account reflects amounts of notes due in more than one year from the date of the balance sheet, net of the current portion. The amount due within one year is recorded in account 2160. This account may be shown as net of unamortized debt issuance costs.
2311	Notes Payable - Surplus Cash	This account reflects project obligations payable only from available surplus cash, and in accordance with the terms of the note. This account may be shown as net of unamortized debt issuance costs.
2320	Mortgage (or Bonds) Payable - First Mortgage (or Bonds)	This account reflects the unpaid principal balances of the mortgages or bonds, net of the current portion, that are payable from project operations. The amount due within one year is recorded in account 2170. This account may be shown as net of unamortized debt issuance costs.
2322-020	Amount of Mortgage(s) Payable	This account reflects the corresponding amount(s) for mortgage principal for each type of mortgage listed in 2322-010. This account should be repeated up to 4 times to include principal due on second, third, fourth, and fifth mortgages. This account may be shown as net of unamortized debt issuance costs.
2323	Other Loans and Notes Payable - Surplus Cash	This account reflects the unpaid principal balances on other loans and notes, net of the current portion, that are payable from surplus cash or other entity funds. The amount due within one year is recorded in account 2173. This account may be shown as net of unamortized debt issuance costs.
2324	Other Loans and Notes Payable	This account reflects the unpaid principal balances on other loans and notes, net of the current portion, that are payable from project operations. The amount due within one year is recorded in account 2174. This account may be shown as net of unamortized debt issuance costs.
2340	Debt Issuance Costs	This account may be used to record unamortized debt issuance costs for mortgages and notes reported above.
2300T	Total Long Term Liabilities	This account must equal the sum of accounts 2305 through 2390 less account 2340; if a value is submitted for any of the accounts that comprise this calculation, this account is required.
6820	Interest on First Mortgage (or Bonds) Payable	This account reflects interest incurred on the first mortgage plus the amortization of debt issuance costs used to construct, permanently finance or refinance the project. This account should not include interest incurred on notes which are payable only from surplus cash.

6825	Interest on Other Mortgages	This account reflects interest expenses incurred on all other mortgages mortgage plus the amortization of debt issuance costs.
Account number	Account Name	Account Definition
6830	Interest on Notes Payable (Long Term)	This account reflects interest on long term project operating notes plus the amortization of debt issuance costs. This account should not include interest incurred on notes which are payable only from surplus cash (refer to account 7142).
6610	Amortization Expense	This account reflects amortization expense related to tax credit monitoring fees , organizational costs, organization expenses, and like expenses.
7141	Interest on Notes Payable	This account reflects interest incurred on notes which are payable only from surplus cash plus the amortization of debt issuance costs.
7142	Interest on Mortgage Payable	This account reflects interest incurred on mortgages which are payable only from surplus cash or other entity funds plus the amortization of debt issuance costs.
S1200-486	Amortization of Debt Issuance Costs	This account is used to record the current year amortization of debt issuance costs.
S1200-610	Net Cash provided by (used in) Operating Activities	This account must equal the sum of accounts 3250, 6600, 6610, S1200-486 through S1200-535, and S1200-540 through S1200-605. This account must equal account S1200-240.

* Account 1520 – Deferred Financing Costs – This account will be available in the near future to accommodate submissions with fiscal years beginning before 12/15/15. This account will be deleted at a later date (most likely midyear in 2017).