



# North Carolina Office of the State Controller

## Financial Reporting Update

---

### GASB 88 Effective for FY 2019

March 19, 2019

**Update: March 25, 2019 – added information regarding the classification of notes payable in debt disclosures.**

**Update: March 19, 2020 – added information regarding NCAS chart of account changes.**

In March 2018, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 improves information disclosed in the notes to the financial statements related to debt, including direct borrowings and direct placements. GASB 88 also clarifies which liabilities should be included in note disclosures about debt.

GASB 88 defines debt for purposes of disclosure in the notes to the financial statements. Debt, short-term or long-term, 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. For purposes of this determination, interest to be accrued and subsequently paid (such as interest on variable-rate debt) or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount to be settled from being considered fixed as the date the contractual obligation is established.

Debt disclosures are required for liabilities recognized in the financial statements that meet the definition of debt as defined above, except for leases and accounts payable. Leases meet the definition of debt, however, disclosures required by GASB Statement No. 87, *Leases*, (GASB 87) provide essential information about lease liabilities. Debt disclosures are required for contracts reported as a financed purchase (i.e. transfer of ownership) of the underlying asset because they are not subject to the disclosure requirements of GASB 87. Accounts payable is not included because of its short-term nature. However, accounts payable converted to long-term debt is subject to debt disclosure requirements.

GASB 88 establishes additional note disclosures for debt obligations, including direct borrowings (for example, entering into a loan agreement with a lender, such as bank loans) and direct placements (for example, issuing a debt security directly to an investor). Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. Information related to these transactions is more difficult to obtain and can include provisions that expose governments to financial risk that can affect the credit quality determination of that government.

Debt currently classified as notes payable in debt disclosures will likely be classified as notes from direct borrowings beginning in fiscal year 2019. Notes with terms negotiated directly with a



lender that are not offered for public sale should be classified as notes from direct borrowings instead of notes payable in the notes to financial statements.

In fiscal year 2020, revisions have been made to the NCAS chart of accounts to incorporate the changes made to the debt disclosures to allow for consistent reporting between the financial statements and note disclosures. The notes payable current (213200) and non-current (223200) account titles in NCAS have been changed to notes from direct borrowings current (213200) and non-current (223200). Proceeds from issuing notes from direct borrowings reported under the modified accrual basis of accounting (Governmental Funds), will continue to be recorded in account 437214 Proceeds - Other Financings. Principal payments on notes from direct borrowings will continue to be reported in account 535314 Other principal payments on a cash basis. Universities and other proprietary funds (Enterprise and Internal Service Funds) must zero out the 535314 account at year-end. New accounts have been added in NCAS for direct placements current (216104) and non-current (226104). Bonds payable that are not offered for public sale should be classified as direct placements. The direct placement accounts will roll to the bonds payable caption in the financial statements. Principal payments on direct placement bonds should be recorded in account 535311 bond principal payments on a cash basis. Universities and other proprietary funds (Enterprise and Internal Service Funds) must zero out the 535311 account at year-end.

In addition to existing debt disclosures, governments should disclose summarized information about the following items:

- Amount of unused lines of credit
- Assets pledged as collateral for debt
- Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

Debt disclosures for direct borrowings and direct placements of debt are required to be disclosed separately from other debt.

To gain additional understanding of GASB 88 (including illustrative examples), please refer to the following resource:

- The GASB webpage from which you can access a PDF file of GASB 88 as well as other GASB pronouncements – [GASB Pronouncements](#)

Thank you for your time and attention to this important change. Questions regarding this specific update should be directed to Joy Darden at (919) 707-0520 or [joy.darden@osc.nc.gov](mailto:joy.darden@osc.nc.gov).