



North Carolina Office of the State Controller

Financial Reporting Update

GASB 99 Effective for Fiscal Years 2022 (paragraphs 26-32), 2023 (paragraphs 11-25), and 2024 (paragraphs 4-10)

July 29, 2022

In April 2022, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 addresses practice issues and technical inconsistencies in existing standards.

Paragraphs 26 through 32 of GASB 99 are Effective (“upon issuance of this standard”) in Fiscal Year 2022.

Replacement of LIBOR

LIBOR is no longer an appropriate benchmark interest rate for a derivative instrument that hedges interest rate risk of taxable debt when LIBOR ceases to be determined by the ICE Benchmark Administration (IBA) using the methodology in place as of December 31, 2021.

GASB Statement 93, *Replacement of Interbank Offered Rates*, issued in March 2020 provided that since LIBOR was expected to no longer exist after December 31, 2021, this would cause governments to amend or replace LIBOR with other reference rates. After that time, LIBOR would no longer be an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt. Subsequent to the issuance of GASB 93 the (IBA) announced the most widely used United States Dollar (USD) LIBOR tenors would continue to be published until June 30, 2023. This led GASB to include the technical correction in GASB 99 providing the cutoff point for certain LIBOR tenors as an appropriate benchmark interest rate should be when LIBOR ceases to be determined as a benchmark by the IBA using the methodology in place at December 31, 2021.

Supplemental Nutrition Assistance Program (SNAP)

Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as the Food Stamps program, were initially issued via paper food stamp coupons. Since paper coupons created their own unique accounting considerations, GASB 24 was issued in 1994 which provided the necessary guidance for accounting for paper food stamp coupon program revenues and expenditures. Since the issuance of GASB 24, all states have ceased issuing paper coupons and now make all benefit payments electronically which eliminates the need for unique accounting for physical food stamp paper coupons. Paragraph 27 of GASB 99 provides that governments should recognize distributions of SNAP by applying the provisions of GASB 33.



Disclosure of Nonmonetary Transactions

Paragraph 28 of GASB 99 clarifies that governments engaged in nonmonetary transactions that are required to apply paragraphs 272-280 of Statement 62 to those transactions should disclose in the notes to the financial statements the measurement attribute(s) applied to the assets transferred. Governments should not disclose the basis of accounting for those assets.

Pledges of Future Revenues When Resources Are Not Received by the Pledging Government

Paragraph 29 is applicable to the primary government that creates a component unit to issue debt on behalf of the primary government with a pledge of the primary government's revenue. The primary government should reclassify an amount due to the blended component unit as an interfund payable and an interfund transfer out simultaneously with the recognition of the revenues that are pledged. The blended component unit (presented as a fund of the primary government) should recognize an interfund receivable and a transfer in when the primary government is obligated to make payments.

Focus of Government-Wide Financial Statements

Government-wide financial statements should display information about the overall reporting government, except for fiduciary activities, regardless of whether the total column for the financial reporting entity as a whole is presented.

Terminology Updates

Paragraphs 31 and 32 of GASB 99 include modifications to update the terminology in GASB 63 and 53. GASB 63 discontinued the use of the term balance sheet to refer to the statements of financial position of proprietary funds. GASB 63 also eliminated the term equity in the context of information presented in the proprietary fund statements except in circumstances surrounding majority equity interests. GASB also identified in GASB 53 the term "resource flows statement" was referred to as "flow of resource statements."

Paragraphs 11 through 25 of GASB 99 are Effective for Fiscal Year 2023.

Option to Terminate Lease Term, PPP Term, and SBITA Term

An option to terminate is an unconditional right that exists within the lease contract, PPP contract, and SBITA contract. A provision that gives both parties of the contract rights to terminate the lease, PPP contract, or SBITA contract only in certain circumstances or upon occurrence of certain events, such as action or inaction by the other party to the contract should not be considered an option to terminate, for purposes of determining the lease term, PPP term or SBITA term.



Additional Lease Term Items

If a lessee has the option to purchase the underlying asset during the lease term and the contract is not a contract that transfers ownership, the lease term should exclude the period, if any, after the date at which the option is reasonably certain to be exercised.

“Provisions that allow for termination of a lease due to (1) purchase of the underlying asset, (2) payment of all sums due, or (3) default on payments, are not considered termination options” (GASB 87 par. 12) should be applied only to the evaluation of contracts that transfer ownership in accordance with paragraph 19 of GASB 87. Paragraph 19 of GASB 87 provides, “A contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options but may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor.”

Short-Term Leases

The Board has clarified that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancellable periods and should be excluded from the maximum possible term. (If both parties have the option to agree to extend then these periods would be included in the lease term.)

A lease term that had previously been determined to be short term and has been modified to extend the initial maximum possible term under the lease contract should be reassessed from the inception of the lease. If the reassessed maximum possible term is greater than 12 months, the lease should no longer be considered a short-term lease. For a lease that is reclassified from a short-term lease, the lease term should be assessed beginning at the date of the modification for purposes of measuring the lease receivable and lease liability.

Lessee and Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership – Lease Liability

Variable payments that depend on an index or a rate or those that are fixed in substance should be included in the measurement of the lease liability (lessee) and/or and lease receivable (lessor). All other variable payments, those that are based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease liability and/or lease receivable.

A lease liability and/or lease receivable should not be remeasured solely for a change in an index or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in the lessee’s incremental borrowing rate.

Transferor and Operator Recognition and Measurement for PPPs

A receivable for installment payments should not be remeasured solely for a change in an index or a rate used to determine the variable payments.



A receivable payment for an underlying PPP asset should be remeasured if there is a change in the PPP term and the change is expected to significantly affect the amount of the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer of ownership.

A liability for installment payments should not be remeasured solely for a change in the index rate or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in an operator's incremental borrowing rate.

Recognition and Measurement for SBITAs Other Than Short-Term SBITAs – Subscription Liability

A subscription liability should not be remeasured solely for a change in an index rate or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in a government's incremental borrowing rate.

Lease Incentives

A lease incentive is equivalent to a rebate or discount and includes an assumption of, or an agreement to pay, a lessee's preexisting lease obligations to a third party, other reimbursements of lessee costs, rent holidays, and reductions of interest or principal charges by the lessor.

PPPs

Deferred Outflow of Resources

The deferred outflow of resources for a PPP should be adjusted by the same amount as any change resulting from the remeasurement of the liability for the underlying PPP asset. If that change reduces the deferred outflow of resources to zero, any remaining amount should be reported in the resource flows statement.

Paragraphs 4 through 10 of GASB 99 are Effective for Fiscal Year 2024.

Financial Guarantees

An exchange or exchange-like financial guarantee is a guarantee of an obligation of a separate legal entity, including a component unit (discretely presented or blended) that requires a guarantor to indemnify a third-party obligation holder under specified conditions is an exchange or exchange-like transaction. Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* GASB 70 issued in 2014 provided guidance for accounting and financial reporting of nonexchange financial guarantees. GASB 99 modifies this guidance to bring all guarantees under the same financial reporting requirements and disclosures. Therefore, governments that extend an exchange or exchange-like financial guarantee should apply the provisions in paragraphs 7-10 and 13 in GASB 70, for the recognition of the liability and the expense related to the exchange or



exchange-like financial guarantees, except for the requirements of paragraphs 9 and 10 of GASB 70 to classify expenses in the same manner as grants or financial assistance payments.

A government that extends an exchange or exchange-like financial guarantee should apply the provisions of paragraphs 14 and 15 of GASB 70 regarding disclosure requirements of the financial guarantees.

Paragraphs 14 and 15 of GASB 70 provide the following disclosure requirements for nonexchange financial guarantees.

A government that extends nonexchange financial guarantees should disclose the following items by type of guarantee regardless of the likelihood of the payment being required:

- 1) A description of the financial guarantee identifying:
 - a. The legal authority and limits for extending the guarantees and types of obligations guaranteed
 - b. The relationship of the government to the issuer or issuers of the obligations that are guaranteed
 - c. The length of time of the guarantee
 - d. Arrangements for recovering payments from the issuer or issuers of the obligations that are guaranteed

- 2) The total amount of the guarantees extended that are outstanding at the reporting date

A government that recognized a nonexchange financial guarantee liability or has made payments during the reporting period on nonexchange financial guarantees extended should disclose the following:

- 1) A brief description of the timing of recognition and measurement of the liabilities and information about the changes in recognized guarantee liabilities:
 - a. Beginning-of-period balances
 - b. Increases, including initial recognition and adjustments increasing estimates
 - c. Guarantee payments made and adjustments decreasing estimates
 - d. End-of-period balances

- 2) Cumulative amounts of indemnification payments that have been made on guarantees extended that are outstanding at the reporting date

- 3) Amounts expected to be recovered from indemnification payments that have been made through the reporting date.

If the cumulative amount disclosed as paid by the government related to a guarantee does not equal the total amounts actually paid on the guarantee because the cumulative amount was determined prospectively at transition, the government should disclose the dates over which the cumulative amount was determined.



Derivative Instruments that are neither Investment Derivative Instruments nor Hedging Derivative Instruments

A derivative instrument that does not meet the definition of an investment derivative instrument or a hedging derivative instrument should be classified as an “other derivative instrument.” The change in fair value of other derivative instruments should be reported on the resource flows statement separate from investment revenue.

Disclosures in the notes to the financial statements for other derivative instruments should be distinguishable from the disclosures for investment derivative instruments and hedging derivative instruments.

Governments should disclose the fair values of derivative instruments that were reclassified from hedging derivative instruments to other derivative instruments.

Termination Hedge Accounting

If a termination occurs as specified in paragraphs 22a-22b of Statement 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), the balance of the deferred outflows of resources or inflows of resources should be reported on the resource flows statement separately from the investment revenue and should be captioned “increase (decrease) upon hedge termination.”

If the termination event is the occurrence of the hedged expected transaction that results in the financial instrument and the government is re-exposed to the hedged risk, the balance of the deferred outflow of resources or deferred inflow of resources should be reported on the resource flows statement separately from the investment revenue caption.

To gain additional understanding of GASB 99, please refer to the following resource:

- The GASB webpage from which you can access a PDF file of GASB 99 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 Elizabeth Colcord at elizabeth.colcord@osc.nc.gov.