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GASB Statement No. 88 Defines Debt and Increases Disclosure Requirements for Government Financial Statements: Orrick

The Governmental Accounting Standards Board issued GASB Statement No. 88 (the “Statement”) in March 2018. The Statement requires increased disclosure in notes to financial statements of all state and local governments. The new disclosure requirements are effective for reporting periods beginning after June 15, 2018; however, GASB encourages earlier application of the Statement requirements.

GASB’s goal in issuing the Statement is to address stakeholder concerns regarding the current inconsistency in disclosure of essential information related to debt in government financial statements. Of particular concern to stakeholders is the need for more information regarding the terms of direct borrowings and direct placements.

To address those concerns, the Statement defines debt and identifies what debt is subject to disclosure requirements in notes to financial statements:

Definition of Debt:

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 [1] at the date the contractual obligation is established. For disclosure purposes, debt does not include leases, except for contract reported as a financed purchase of the underlying asset, or accounts payable.

The Statement also requires additional areas of summarized information related to debt that are not currently required. The increased disclosure provides users of government financial statements better information about the debt of the governmental entity, specifically the effect of debt on future resource flows of the entity and the consequences that may result in an event of default or termination.

Notes to the Financial Statements:

The Statement requires the following new disclosures in notes to the financial statements:

- a) Amount of unused lines of credit
- b) Assets pledged as collateral for debt
- c) Terms specified in debt agreements related to:
 - 1. Events of default with finance-related consequences,
 - 2. Termination events with finance-related consequences, and
 - 3. Subjective acceleration clauses.

Disclosures regarding direct borrowings and direct placement of debt should be separated from other debt in the notes to the financial statements.

Please see the [Statement](#) in full for more information regarding the background and scope of the new requirements.

[1] See full Statement for what amounts are considered fixed at the date the contractual obligation is established.

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