

GASB Issues 2022 Technical Accounting Updates

GASB periodically updates its authoritative guidance for practice issues and technical inconsistencies identified during application and implementation of GASB statements. In April 2022, GASB approved the issuance of Statement 99, *Omnibus 2022*, which addresses a variety of topics, noted below.

Statement 87, Leases

■ Lease Term:

- **Purchase Options.** Currently, the exercise price of a purchase option is included in the calculation of a lease liability if its exercise is reasonably certain. However, the purchase of the underlying asset is not considered a termination option. In certain situations, the presence of a purchase option may result in a lease liability that includes the present value of payments that otherwise would be made subsequent to the expected exercise of a purchase option as if that option were not exercised and would overstate the present value of the expected payments to be made to the lessor. The update makes the purchase option on the underlying asset a termination option to be considered when evaluating the lease term.
- **Termination Options.** The update establishes that contract provisions that allow for the termination of a lease only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of another party, should be excluded from options to terminate.

Lease Term	
Current	Clarification of Application
<p>The lease term is the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:</p> <ol style="list-style-type: none"> Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option 	
<p>Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term. For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time. 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.</p>	<ol style="list-style-type: none"> An option to terminate is an unconditional right that exists within the lease contract. A provision that gives a lessee or lessor the right to terminate the lease only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the lease contract, should not be considered an option to terminate the lease for purposes of determining the lease term. For example, provisions that allow for the termination of a lease due to a violation of lease terms and conditions, such as a default on payments, are not considered options to terminate the lease. 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.

- **Short-Term Lease.** The update adds new wording to avoid a misinterpretation of the current definition. The use of the word “either” may cause preparers to believe that any periods subject to a termination option by a single party could be considered a cancelable period. GASB also added wording to prevent structuring and subsequent lease modification to avoid Statement 87’s recognition provisions. With this update, the entire lease term from inception (the initial term and the extension) should be considered in determining the lease term.

Short-Term Lease Definition	
Current	Update
For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.	Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and should be excluded from the maximum possible term. For a lease that has cancelable periods, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term of that lease is the noncancelable period, including any notice periods. A lease that previously had been determined to be short term and that has been modified to extend the initial maximum possible term under the lease contract should be reassessed from lease inception. 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 modification date to measure the lease receivable or liability.

- **Lease Recognition.** The new statement clarifies GASB’s intent to include only variable payments that depend on an index or rate or that are fixed in substance; all other variable payments should be excluded when measuring a lease liability or receivable. GASB also clarifies that governments should not remeasure a lease asset or liability 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.
- **Lease Incentives.** New wording has been added to the lease incentive definition to avoid confusion as to whether a new lessor is legally obligated to assume the lessee’s pre-existing lease obligation for certain payments to be classified as lease incentives.

Lease Incentive Definition	
Current	Update
A lease incentive is equivalent to a rebate or discount and includes assumption of a lessee’s pre-existing lease obligations to a third party, other reimbursements of lessee costs, rent holidays, and reductions of interest or principal charges by the lessor.	A lease incentive is equivalent to a rebate or discount and includes an assumption of, or an agreement to pay , a lessee’s pre-existing lease obligations to a third party, other reimbursements of lessee costs, rent holidays, and reductions of interest or principal charges by the lessor.

- **Resource:** [GASB 87: Leases September 2020 Update](#)

- **Effective Date:** Fiscal years beginning after June 15, 2022

Statement 94, *Public-Private and Public-Public Partnerships (PPP)*

When Statement 94 was issued in 2020, it leveraged the terminology and conventions of Statement 87. These changes mirror the updates for Statement 87 noted above, including lease term and remeasurement of receivables and liabilities. Statement 94 includes remeasurement guidance for a transferor's receivable for the underlying PPP asset if there is a PPP modification. However, there is no guidance if there is a change in the PPP term not resulting from a modification, e.g., a change in the assumption about whether the right to extend or terminate the PPP will be exercised by an operator or a transferor. The update requires remeasurement of the receivable for the underlying PPP asset if there is a change in the PPP term only if the change is expected to significantly affect the receivable amount.

Currently, Statement 94 does not provide for remeasurement of the deferred outflow of resources related to the liability for the underlying PPP asset if the liability is remeasured. This update requires remeasurement of the deferred outflow of resources if that liability is remeasured. The adjustment should be the same amount as any change resulting from the remeasurement of the liability for the underlying PPP asset, without reducing the deferred inflow of resources below zero.

- **Resource:** [GASB Updates Public-Private Partnership Accounting](#)
- **Effective Date:** Fiscal years beginning after June 15, 2022

Statement 96, *Subscription-Based Information Technology Arrangements (SBITA)*

Statement 96's language and concepts closely mirror the lease guidance provided in Statement 87. These updates mirror the changes to Statement 87, including term, short-term SBITA classification, and recognition and measurement of subscription liabilities.

- **Resource:** [New GASB Rules for Cloud Computing Costs](#)
- **Effective Date:** Fiscal years beginning after June 15, 2022

Statement 53, *Accounting and Financial Reporting for Derivative Instruments*

As currently written, Statement 53 requires a derivative within its scope to be reported as either an investment or hedging derivative instrument. However, some derivatives may not meet either definition, e.g., a derivative that is no longer effective at reducing financial risk. Whether such an instrument is held primarily for income or profit is subject to debate. GASB concluded that changes in fair value of a derivative that is neither an investment nor hedging derivative instrument should be reported separately from investment revenue on the resource flows statement and segregated in financial note disclosures. The statement also includes an update for the treatment upon termination of hedge accounting.

- **Effective Date:** Fiscal years beginning after June 15, 2023

Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

An exchange or exchange-like financial guarantee is defined as a guarantee of an obligation of a legally separate entity or individual—including a blended or discretely presented component unit—that requires the guarantor to indemnify a third-party obligation holder under specified conditions in exchange for consideration. This definition is similar to the nonexchange financial guarantee definition in Statement 70, except for the consideration paid. GASB concluded that the existence of consideration should not result in different recognition and measurement requirements for the two types of guarantees. The update establishes the recognition threshold for liabilities related to exchange and exchange-like financial guarantees when a payment is **more likely than not** to occur. GASB also believes that the measurement of

financial guarantees should be the same regardless of whether consideration is provided as part of the guarantee transaction. The financial statement note disclosures for exchange financial guarantees also should follow Statement 70's more specific requirements. For exchange and exchange-like financial guarantees, as well as nonexchange financial guarantees, 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.

These changes would not apply to guarantees related to special assessments covered by Statement 6, *Accounting and Financial Reporting for Special Assessments*; financial guarantee contracts covered by Statement 53; or guarantees related to conduit debt obligations within the scope of Statement 91, *Conduit Debt Obligations*.

- **Effective Date:** Fiscal years beginning after June 15, 2023

Statement 93, Replacement of Interbank Offered Rates

Statement 93 offered narrow relief to existing hedge accounting guidance as governments update derivative contracts in anticipation of a discontinuation of the London Interbank Offered Rate (LIBOR). When Statement 93 was issued, LIBOR was expected to sunset after December 31, 2021. However, for some USD LIBOR tenors, the date has been extended to June 30, 2023. The update addresses the tenor timing differences and would not require additional amendments for further delays in LIBOR cessation.

Statement 93 Effective Date	
Current	Update
The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.	LIBOR is no longer an appropriate benchmark interest rate for a derivative instrument that hedges the 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.

- **Resource:** [GASB Finalizes LIBOR Transition Relief](#)
- **Effective Date:** Effective on issuance

Statement 33, Accounting and Financial Reporting for Nonexchange Transactions

The use of paper food stamps under the Supplemental Nutrition Assistance Program (SNAP) presented unique accounting considerations that were addressed in 1974 with the issuance of Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. All states have now discontinued paper food stamps in favor of electronic benefit transfers, eliminating the need for special guidance. The update requires SNAP accounting and reporting to follow guidance in Statement 33, which provides guidance on the recognition of assets for government-mandated or voluntary nonexchange transactions.

- **Effective Date:** Effective on issuance

Statement 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues

Statement 48 addresses reporting in the separate financial statements of the primary government and the component unit but does not address the process of blending that component unit. This update adds guidance to address the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. The primary government should reclassify an amount due to the component unit as an interfund payable and an interfund transfer out simultaneously with the recognition of the revenues that are pledged. The debt-issuing 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 the payments.

- **Effective Date:** Effective on issuance

Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

The update includes a minor clarification to the disclosure requirements of nonmonetary transactions.

Statement 62 – Disclosure of Nonmonetary Transactions	
Current	Update
A government that engages in one or more nonmonetary transactions during a period should disclose in financial statements for the period the nature of the transactions, the basis of accounting for the assets transferred, and gains or losses recognized on transfers.	A government that engages in one or more nonmonetary transactions during a period should disclose in financial statements for the period the nature of the transactions, the measurement attribute applied to the assets transferred, and gains or losses recognized on transfers.

- **Effective Date:** Effective on issuance

Statement 34 – Basic Financial Statements

GASB has updated the reporting requirements of a governmentwide total column in the financial statements that clarify which requirements apply regardless of whether a total column is presented.

Statement 34 – Basic Financial Statements	
Current	Update
The governmentwide statements should display information about the reporting government as a whole, except for its fiduciary activities.	The governmentwide financial statements should display information about the overall reporting government , except for its fiduciary activities, regardless of whether a total column for the entity as a whole is presented.

- **Effective Date:** Effective on issuance

FORVIS continues to monitor the GASB standard-setting process. For more information on how these issues could affect your organization, contact a professional at FORVIS.

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