2021 GASB Implementation Guide Issued

At least annually, GASB issues an implementation guide to help governments adopt new accounting standards or provide guidance on existing standards. Implementation guides are authoritative Category B guidance in the hierarchy of generally accepted accounting principles and are intended to clarify, explain, or elaborate on GASB statements. On June 2, 2021, GASB released its 2021 Implementation Guide, which primarily addresses unresolved questions on Statement 87, *Leases.* In addition, several questions in previous implementation guides have been revised. There are various effective dates for the changes (noted below), but all can be applied early if the underlying pronouncement has been implemented.

Leases (Statement 87, Effective for Fiscal Years Beginning After June 15, 2021)

The clarifications for leases are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter except for the update to the effective date that is effective for fiscal years beginning after June 15, 2021.

Definition

- Interfund agreements are excluded from the scope of Statement 87.
- Variable payments based on future sales should be included in the assessment of whether a contract meets the lease definition. The assessment of whether a contract meets the lease definition precedes the measurement of a lease receivable. The assessment of whether the right to use an asset in an exchange or exchange-like transaction should consider all values exchanged, which should include expected variable payments.

Term

- Termination provisions for payment defaults are not considered termination options for determining the lease term.
- In the example provided, a government lessee has a 72-month lease with either party having the right to cancel at any time without penalty with 24 months' notice. The initial lease term is 24 months. In this case, as long as neither party provides notice to exercise the right to cancel, the remaining lease term at any point during the first 48 months of the lease would be 24 months. The government should reassess the lease term at the end of the first reporting period and subsequent reporting periods.
- The length of a contract when there is an interrupted control, *i.e.*, a seasonal contract, does not affect the assessment of the maximum possible term. The maximum term should be based on the period when the government has control of the right to use the asset.

Recognition & Measurement

- For contracts that need to be reported as financed purchases, a governmental buyer should look to guidance on capital assets and long-term debt or payables, depending on the financing terms. Governmental sellers should look to guidance on long-term receivables. A governmental seller should recognize a gain or loss on the sale of the capital asset in financial statements prepared using the economic resources measurement focus.
- A government that provides payment in full at lease commencement should measure the lease asset at the amount of the lease payment to be made to the lessor at lease commencement. The government should not recognize interest expense during the lease term, because there is no lease liability on which to base interest.
- Accrued interest payable should be reported separately from the lease liability.

- Payments for a share of the lessor's taxes and insurance are considered nonlease components, which should be accounted for separately from lease components and not included in the measurement of the lease liability. Such payments should be recognized as outflows of resources in the period the obligation was incurred.
- In the example provided, a city hires a property manager to enter leases for a city-owned building with third parties on the city's behalf and collect rents. The manager remits rental payments—less a management fee—to the city. In this example, the city's role as lessor is unaffected by the property manager's performance of certain management services.
- If the principal ongoing operation of a business-type activity or enterprise fund is leasing, interest revenue related to leases should **not** be reported as operating revenue. Because there is lease revenue associated with the lease, the interest revenue related to the lease should be reported as nonoperating revenue.
- Variable minimum guarantee payments. In the example provided, the minimum guarantee for subsequent years is based on a fixed percent of the prior year's sales. A government would be required to remeasure the lease receivable only when the final year's minimum guarantee becomes known. Remeasurement is not required in other years, because the payments become fixed in substance once the preceding years' sales are known. Remeasurement is only required when a contingency—upon which some or all of the variable payments **over the remainder of the lease term** are based—is resolved. In this case, the contingency is resolved for only one year, not for the remainder of the lease term.
- Pre-lease commencement payments. Lease payments received before lease commencement should be reported as a liability until the lease commencement. Neither a lease receivable nor a deferred inflow of resources should be recognized before lease commencement.

Lease Incentives

- Incentives from a third party to terminate a lease. In the example presented, a government will terminate an existing lease early, and a third party will pay the pre-existing lessor before the commencement of a new lease in office space owned by the third party. The pre-existing lease asset and lease liability should be reduced when the pre-existing lease is terminated. The government should continue to report the pre-existing lease liability until payment to the pre-existing lessor is made. When the new lease term commences, the incentive received should reduce the new lease asset.
- The implementation guide includes a detailed example of a rent holiday calculation.
- Lease improvements. In the example presented, a contract required a governmental lessor to pay for certain improvements that will not be reimbursed by the lessee and will be owned by the lessor. A lease incentive, as defined in Statement 87, must reduce the amount that a lessee is required to pay for a lease. In this case, the improvements are not lease incentives and the lessor should account for the improvements separately from the lease and should not include the improvements in the measurement of the lease receivable.

Modifications & Terminations

- A future-dated lease modification should be accounted for when the modification is made, not when the changes take effect.
- A remeasurement because of a lease modification includes reassessment of the discount rate.
- A lease modification is made to lengthen the noncancelable period. Since the modification does not add one or more underlying assets and is not accounted for as a separate lease, the lessee is required to remeasure the lease liability. In this example, the lessee should remeasure the lease liability for the amended lease contract using the initial measurement guidance in paragraphs 21-23 of Statement 87.

Effective Date & Transition

For leases that are in effect at the time of implementation, a government should consider the beginning of the period of implementation or the beginning of the earliest period restated—whichever is earlier—as the commencement of the lease term, even if the actual lease started before that date. **Depending on presentation, long-term leases with fewer than six remaining months left and no renewal options at transition may be considered short-term leases at the adoption date.**

Fiduciary Activities (Statement 84, Effective for Fiscal Years Beginning After December 15, 2019)

The clarifications for fiduciary activities are effective for reporting periods beginning after June 15, 2022.

- The Internal Revenue Code section under which an employee benefit plan (EBP) is organized is **not** indicative of whether the plan is a fiduciary activity.
- A government that selects a set of investment options from which participants in an EBP can direct the investment of assets in their individual account is **not** evidence that the government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to participants. In this case, the government does not have the ability to expend the assets, consume the assets, change one asset for another, or use the asset in another way to provide benefits to EBP participants.

Additional Topics

Other topics addressed include:

- **Accounting and Financial Reporting for Derivative Instruments** – Forward delivery bonds that are nonparticipating contracts under Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, should **not** be accounted for as a derivative contract even if the contract meets the derivative definition under Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, since the contract does not have the ability to capture market changes. This change is effective for reporting periods beginning after June 15, 2022.
- **Nonexchange Transactions** (Statement 33) – Contractual agreements are not eligibility requirements. Contractual agreements provide evidence of the resource recipient's acceptance of the terms and conditions of the provider's program, including program eligibility requirements. If an executed contractual agreement is required, the incurrence of allowable costs is not sufficient to fulfill recognition criteria in the absence of such executed agreement in accordance with the grantor's legal requirements. That is the case even if the contractual agreement includes provisions to reimburse allowable costs that are incurred prior to its execution. **This change is effective for reporting periods beginning after June 15, 2022.**

The guide also includes amendments to previously issued questions and answers:

- **Capitalization policies.** A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis but could be significant collectively. In the example provided, a government purchases 100 computers costing $1,500 each and has a $5,000 capitalization threshold. Because the aggregate amount of $150,000 is significant, the government should capitalize the computers. **This change is effective for reporting periods beginning after June 15, 2023.**
- **Revenue classification.** The *use* of revenue from fees, fines, and charges does not affect the classification as a program revenue. For nontax revenue, a government can only consider the function from which the revenue is derived. **This change is effective for reporting periods beginning after June 15, 2022.**

- **Major funds.** A particular fund may be reported as a major fund for only one or two years. However, a government can choose to report a fund as a major fund even if it does not meet the percentage criteria in the interest of consistency. This update clarifies the answer applies broadly to all fund types, not just capital funds. **This change is effective for reporting periods beginning after June 15, 2022.**
- **Intra-entity transfer of assets.** The previous example of a building transfer to a pension fund has been updated to include a reference to Statement 92, *Omnibus 2020*. **This change is effective for reporting periods beginning after June 15, 2022.**

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