



ACCOUNTING

It's Been a Minute

GASB updates implementation guidance after a one-year hiatus

BY MICHELE MARK LEVINE

For the second time in four years, the Governmental Accounting Standards Board (GASB)—or more accurately, the GASB's staff—has issued an update to its Comprehensive Implementation Guidance (CIG), which incorporates all currently in-effect implementation guidance. Implementation guides (IGs) comprise sets of questions and answers (Q&As) that apply generally accepted accounting principles (GAAP) to specific situations, helping to explain the practical implications of the rules. Individual IGs are then incorporated into the CIG. IGs are sometimes issued for new GASB standards that GASB staff anticipates will generate a large volume of questions, such as shortly

after the board-issued pension and other postemployment benefit standards and, more recently, lease standards. Otherwise, periodic updates to the CIG are issued as needed. These CIG updates, which include new and updated Q&As on a variety of topics, were issued annually from 2015 until 2021, but appear to be slowing down to a biennial rhythm.

This most recent installment, Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*¹ (the IG), was cleared for issuance by the board (technically “not objected to” rather than “approved,” since all IGs are staff documents) at its June meeting. The IG contains 18 sets of Q&As, including 16 new questions, one of which replaces an earlier question, and two amendments to previously issued Q&As. The

overwhelming majority of this guidance is related to GASB's new and new-ish pronouncements:

- GASB Statement No. 100, *Accounting Changes and Error Corrections* (four Q&As)
- GASB Statement No. 101, *Compensated Absences* (one Q&A)
- GASB Statement No. 103, *Financial Reporting Model Improvements* (eight Q&As)

There is also an assortment of Q&As on other topics, including adding *yet more* Q&As on leases (two Q&As) to the existing group of well over one hundred, as well as a few on conduit debt (two Q&As) and on special revenue funds (one Q&A).

Rather than reciting all the contents of the IG, in most cases, this article excerpts or summarizes the key points of the questions and the answers. We'll refer to them by the numbering in the IG, so that you can easily find the exact content by following the link above, as needed. Of course, you should rely on the IG, not this interpretation. Still, the intent of this article gives you a good idea of the question topics and the answers given, and—hopefully—a bit of additional insight through the commentary. The categorization by topic is also based on the author's judgment; GASB has used different descriptions, which are seen in the headings in the IG.

Q&A # | 4.1

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): GASB 103's definition of operating revenues and expenses can include items that do not meet the criteria to be included in operating cash flows. How should governments address this?

Answer (summary): The items that are included in the statement of revenues, expenses, and changes in fund net position of a proprietary fund or a standalone business-type activity (BTA) as operating revenues and expenses, but that belong in other classifications in the statement of cash flows, *should*

be included in the reconciliation of operating income to net cash flow from operating activities that accompanies the statement of cash flows.

Comments: This situation is most likely to occur when the *principal ongoing operations* of a proprietary fund or BTA [hereafter referred to collectively as “a proprietary fund”] are investing or financing activities. GASB 103’s new definitions make the revenues and expenses of these activities operating revenue and expenses when reported in a proprietary fund statement of revenues, expenses, and changes in fund net position, as discussed further in Q&As 4.2, but does not alter their treatment on the statement of cash flows.

Q&A # | 4.2

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): GASB 103 tells us that interest revenues on loans issued by a proprietary fund established to provide loans to first-time homebuyers are operating revenues because those loans are the fund’s principal ongoing operations. If the fund also incurs interest expense on money it has borrowed to enable it to make the loans, is that interest expense also an operating expense?

Answer (summary): No. The proprietary fund’s principal ongoing operation is providing low interest loans. The interest expense does not arise from those loans, but from the borrowing the government has done to enable it. *Thus, the interest expense is incurred for financing that is not the fund’s principal ongoing operations and is nonoperating.*

Comments: This response makes a subtle distinction that can be difficult to understand, as many people see the borrowing as being directly related to (enabling) the fund’s ability to lend. However, the proprietary fund could have used its own resources or grantor resources to finance its lending, thus the financing is a distinct activity and not the only way to carry out the fund’s principle ongoing operations.

The intent of this article gives you a good idea of the question topics and the answers given, and—hopefully—a bit of additional insight through the commentary.

Q&A # | 4.3

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): If a proprietary fund’s principal on-going operation is to lease out the government’s own property, such as for economic development purposes, is the interest income portion of the lease payments received an operating revenue?

Answer (summary): No. The proprietary fund’s principal ongoing operation is to convey the right to use the government’s property. The interest income derived from providing *financing* to the lessee is nonoperating.

Comments: Like question 4.2 discussed above, this answer depends on a distinction between how a proprietary fund conducts its principal ongoing operations and the financing that is incidental to it. If a lessee were to pay for the right to use the government’s property entirely at the inception of the lease, the fund would meet its objective of conveying control of the underlying asset without receiving any interest income.

Q&A # | 4.4

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): In the same situation as in 4.3, above, would the proprietary fund or BTA lessor recognize the lease income that arises from amortizing its deferred inflow of resources as an operating revenue?

Answer (summary): Yes. The revenue from the amortization does not meet any

of the criteria to be reported as nonoperating and thus defaults to being reported as operating revenue.

Comments: The deferred inflow of resources is created at the inception of the lease and reflects the *principal* amount of the lease payments to be received, plus any payments received in advance from the lessee. Thus, its gradual recognition as revenue reflects the principal portion of payments received, received for allowing lessees the right to use the government’s assets, which is the principal ongoing operation of the fund.

Q&A # | 4.5

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): If a proprietary fund receives a subsidy that the grantor has not restricted for capital assets, but which nonetheless is used for capital assets, is this a capital or noncapital subsidy?

Answer (summary): Noncapital subsidy. Subsidies are classified as noncapital subsidies if the provider of the subsidy either does not limit the use of the resources or limits the use of the resources to something other than the acquisition of capital assets.

Comments: If the government has the option to use resources for operating purposes, they are classified as noncapital subsidies (a.k.a., “operating subsidies”). In accordance with GASB 103, noncapital subsidies are reported immediately following a fund’s operating income [loss] and are followed by a new subtotal of *operating income [loss] and noncapital subsidies*.



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Q&A # | 4.6

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): Do payments in lieu of taxes (PILOTs) made by a proprietary fund meet the definition of subsidies?

Answer (summary): It depends. If, in substance, the PILOT is payment for goods or services provided to the fund, it is not a subsidy. If the PILOT is intended to compensate the fund for lost taxes, and the rates charged by the fund to its customers are set to cover the PILOT, it is a subsidy payment.

Comments: GASB 103's new definition and presentation of subsidies will take some getting used to, perhaps especially when proprietary funds subsidy providers

rather than the recipients. Both subsidies given and received are identified partly by their impact on the rates a proprietary fund charges customers for goods and services. If a payment or transfer is made, other than for goods or services received, and—as a result—the fund's customers are charged more than they would otherwise be charged, that would be a subsidy payment.

Q&A # | 4.7

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): If a governmental healthcare provider treats an insured patient and is paid by the patient's insurance company, is that insurance payment a subsidy?

Answer (summary): No. The insurer is paying in place of the patient because of

a contractual relationship between the patient and the insurer.

Comments: This is a case when GASB wants us to follow the intent of a standard rather than its literal wording. GASB 103 paragraph 14.a. defines subsidies, in part, by saying they include "resources received from another party ... for which the proprietary fund does not provide goods and services to the other party or fund..." (emphasis added)." A literal reading might lead a government to account for third-party payments as subsidies; but clearly that was not GASB's intention.

Q&A # | 4.8

Predominant Topic/Reason for Inclusion: Leases

Question (summary): A government's vehicle lease contract specified that the

lease ends after the sooner of (1) three years or (2) the car has been driven 60,000 miles. What is the lease term?

Answer (summary): The initial lease term is three years, which is the noncancellable period. If the 60,000 miles cap is reached earlier, that is an event that requires early termination of the lease, and the government reevaluate the lease term at that time.

Comments: This answer provides governments with clear guidance in dealing with a “grey area” in establishing initial lease terms. It can cause an illogical result if the government’s well-informed estimate is that it will reach 60,000 miles significantly before the end of three years, although presumably they would have chosen a different lease arrangement in that case. What might be a more common result of heavy usage, a government’s need to make an additional payment at the end of the lease for additional miles driven, if deemed reasonably certain to be required, would be estimated and accounted for as part of the initial lease liability.

Q&A # | 4.9

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): If a lease is remeasured due to a lease modification, should government remeasure as of the lease inception or as of the modification date?

Answer (summary): Remeasure from the date of the modification.

Comments: Otherwise, the parties would have to make restatements of prior periods, which does not make sense given that the modifications had not been made as of those periods.

Q&A # | 4.10

Predominant Topic/Reason for Inclusion: Conduit debt

Question (summary): A component unit (CU) issues debt on behalf of its

primary government (PG) which meets criteria to be conduit debt except that the issuer CU and the obligor PG are in the same reporting entity. If the CU issues standalone financial statements, should it report the debt as conduit debt, since the PG is not included in that stand alone reporting entity?

Answer (summary): No. The conduit debt requirement that the issuer and obligor are not in the same financial reporting entity is referring to the relationship between the parties, not the financial statements in which the reporting is made.

Comments: The prohibition on the issuer and the obligor being in the same financial reporting entity is intended to limit reporting of conduit debt to those instances in which there is substantively no obligation for the issuer to use its own resources to pay the obligor’s liability. GASB has decided that the interrelationship between PGs and their CUs, or between multiple CUs of the same PG, is too close to meet that objective. The substance of that relationship does not change when a CU issues standalone statements.

Q&A # | 4.11

Predominant Topic/Reason for Inclusion: GASB 100

Question (summary): Is a change in a government’s capitalization threshold a change in accounting principle?

Answer (summary): No. The use of capitalization thresholds is based on the core accounting concept of *materiality* (also referred to as significance), not the application of an accounting principle.

Comments: This clarification is very helpful, as the question has been asked especially frequently since the issuance of GASB 100. It is also good news for governments that want to periodically update their capitalization thresholds to keep pace with inflation, because it means they will not have to restate prior periods’ financial statements or even the current year’s opening balances.

Instead, governments generally make changes to their capitalization thresholds prospectively only, simply raising the minimum cost for capitalizing newly acquired assets and disclosing the change and its effective date in their notes.

Q&A # | 4.12

Predominant Topic/Reason for Inclusion: GASB 100

Question (summary): Can an individual adjustment or restatement of beginning net position, fund balance, or fund net position be displayed separately from the remaining aggregate adjustments to or restatements of those beginning balances on the face of the financial statements?

Answer (summary): No. Unless each accounting change and error correction is displayed separately, a single line item representing the total of all should be displayed for the reporting unit.

Comments: No playing favorites allowed!

Q&A # | 4.13

Predominant Topic/Reason for Inclusion: GASB 100

Question (summary): How should a change in a fund’s presentation from major to nonmajor be displayed in the financial statements?

Answer (summary): A column should continue to be presented in the activity statement to display the fund’s beginning balance as previously reported and the adjustment to that beginning balance, but not the activity of the period.

Comments: The requirement to display these so-called “ghost columns” came as a bit of a surprise to many. However, to meet the objective of showing readers a clear crosswalk between amounts previously reported as ending balances and those being used as opening balances, such columns are a practical necessity.

Q&A # | 4.14

Predominant Topic/Reason for Inclusion: GASB 100

Question (summary): How should the termination of a fund due to a movement of continuing operations be displayed in the financial statements?

Answer (summary): Use a ghost column.

Comments: n/a

Q&A # | 4.15

Predominant Topic/Reason for Inclusion: GASB 101

Question (summary): Is a future pay rate a “rate different from the employee’s pay rate at the time payment” (GASB 101, paragraph 17) that should be used in measuring the compensated absence liability?

Answer (summary): No. The “different rate” referred to would be, for example, if leave payouts were made at a percentage of the pay rate in effect or at a set dollar amount. The government should not use future pay rates, even if known.

Comments: As compensated absence liabilities will be remeasured at the end of each reporting period using the rates then in effect, so changes in pay rates will be reflected as expenses as rate changes occur over time.

Q&A # | 4.16

Predominant Topic/Reason for Inclusion: GASB 103

Question (summary): If a PG is implementing GASB 103 for its FYE June 30, 2026, and will include a CU with an FYE of December 31, 2025, when should the CU implement GASB 103?

Answer (summary): For the CUs December 31, 2025, financial statements, as they will be included in the PG’s financial statements for the year ending June 30, 2026.

Comments: PGs that will need to incorporate financial statements for their CUs with earlier FYEs should be sure to

notify CUs of the required schedule and be prepared assist with the CUs implementation of GASB 103, if necessary, to ensure a smooth and timely implementation for themselves.

Q&A # | 5.1

Predominant Topic/Reason for Inclusion: Conduit debt

Question (summary): Is holding a legal title to an asset equivalent to ownership?

Answer (summary): Not in all cases. Title represents legal ownership, but that ownership may be held for the benefit of another entity, in which case it would not be equivalent to ownership by the title holder.

Comments: This is an amendment to a previous Q&A that equated title with ownership. However, with conduit debt associated arrangements, the bond issuer may hold legal title to an underlying asset to be entitled to collect periodic payments from the obligor to pay the debt service on the bonds as they come due. Those periodic payments may be legally structured as rental payments, although they do not fall within the scope of GASB lease accounting guidance. While the issuer may hold title in these cases, if all substantive rights and obligations of ownership are held by the obligor, the issuer does not report the underlying asset.

Q&A # | 5.2

Predominant Topic/Reason for Inclusion: Special revenue funds

Question (summary): Are governments required to use special revenue funds (SRFs) to report restricted or committed revenue sources?

Answer (summary): Not generally; however, SRFs are required to be used in two cases:

- To report the general fund of a blended CU.
- To report restricted revenue sources that are both (1) legally required to be

reported in an SRF and (2) the fund meets the GAAP requirements to be reported in an SRF.

Comments: GAAP trumps legal requirements when it comes to reporting and disclosure in GAAP financial statements. However, when permitted by GAAP, laws should be complied with. Reporting to meet legal requirements that fall outside of GAAP can be included as other supplementary information in an ACFR, such as in combining and individual fund statements, or in standalone documents prepared for that purpose. To be reported as an SRF in accordance with GAAP, proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects should be the foundation.

It is primarily through technical inquiries made to GASB staff by preparers, auditors, users, and others that the staff is alerted to the need for clarification. So, on the one hand, it could be argued that we only have ourselves to blame for the IGs. On the other hand, it could be said that if GASB’s standards were easier to understand, there would be little or no need for implementation guidance. But from either perspective, it’s probably a good sign that IGs are coming at us more slowly than before. ■

¹ <https://gasb.org/projects/current-projects/implementation-guidance-update2025-418685>



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