

To help answer the questions, GFOA staff developed a decision tree to communicate the process of evaluating proprietary fund transactions. This article demonstrates how such a structured decision tree can be used as a practical tool to help governments apply GASB 103 consistently and defensibly. By walking through the logical sequence of questions embedded in the standard, a decision tree helps preparers focus on the substance of proprietary fund transactions, apply professional judgment, and clearly document conclusions for audit and financial reporting purposes.

Overview of GFOA's GASB 103 decision tree

GFOA's GASB 103 decision tree organizes the standard's definitions into a sequential review process that mirrors how practitioners may evaluate transactions in practice. Rather than relying on historical classifications or chart-of-accounts labels, the decision tree prompts preparers to evaluate the nature of the transaction using the logic from the new standard.

Used effectively, the decision tree serves two purposes. First, it functions as an implementation aid by guiding staff through GASB 103's new requirements. Second, it provides a clear documentation framework that can be retained as audit support, demonstrating how management arrived at its classification conclusions.

Decision tree: where does it go?

Using the model decision tree displayed in Exhibit 1, the proprietary fund transaction can be evaluated to determine where it is placed within the *Statement of Revenues, Expenses, and Changes in Net Position*.

PATH 1

Is it a nonoperating revenue or expense?

The first step in the decision tree will determine whether a transaction falls into certain categories that GASB 103 explicitly identifies as nonoperating.

ACCOUNTING

Where Does It Go?

Using a Decision Tree to Apply GASB Statement No. 103 in Proprietary Funds

BY ANNE A. FRITZ AND MICHELE MARK LEVINE

GASB Statement No. 103, *Financial Reporting Model Improvements*, represents one of the most significant changes to proprietary fund financial reporting since at least the issuance of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. A central feature of Statement No. 103 is the refinement of how governments distinguish operating revenues and expenses from nonoperating revenues and expenses, along with the introduction of a

formal definition of subsidies, both applicable to proprietary funds.

While the revised definitions are intended to improve consistency and comparability across governments, many practitioners have found implementation challenging, particularly when evaluating complex or nontraditional transactions. During GFOA's recent GASB 103 webinars, participants submitted questions relating to the standard in practice. Most questions involved the proper classification of transactions in accordance with the new requirements.

These categories initially include (1) contributions to permanent or term endowments, (2) revenues and expenses related to financing activities, (3) investment income and expenses, and (4) gains or losses from the disposal of capital assets or inventory (other than sales of goods sold in the normal course of operations, such as branded merchandise).

If the answer is yes to any of these four categories, the analysis proceeds to the next step of evaluation via Path 2. Otherwise, the transaction bypasses the nonoperating principal activity analysis and moves directly to determine if the transaction meets the fifth category of nonoperating revenue or expense, *subsidies*, which is determined in Path 3.

PATH 2

Does the nonoperating activity constitute the proprietary fund's principal ongoing operation?

GASB 103 acknowledges that certain activities meeting the definition of nonoperating revenue or expense—other than subsidies—may nevertheless represent a fund's principal ongoing operations. The decision tree directs governments to evaluate whether the activity is central to why the proprietary fund exists.

If the activity does not constitute a principal ongoing operation, it is reported as another nonoperating revenue or expense. If it does constitute a principal ongoing operation, the

activity may be presented as operating revenue or expense in the *Statement of Revenues, Expenses, and Changes in Net Position*.

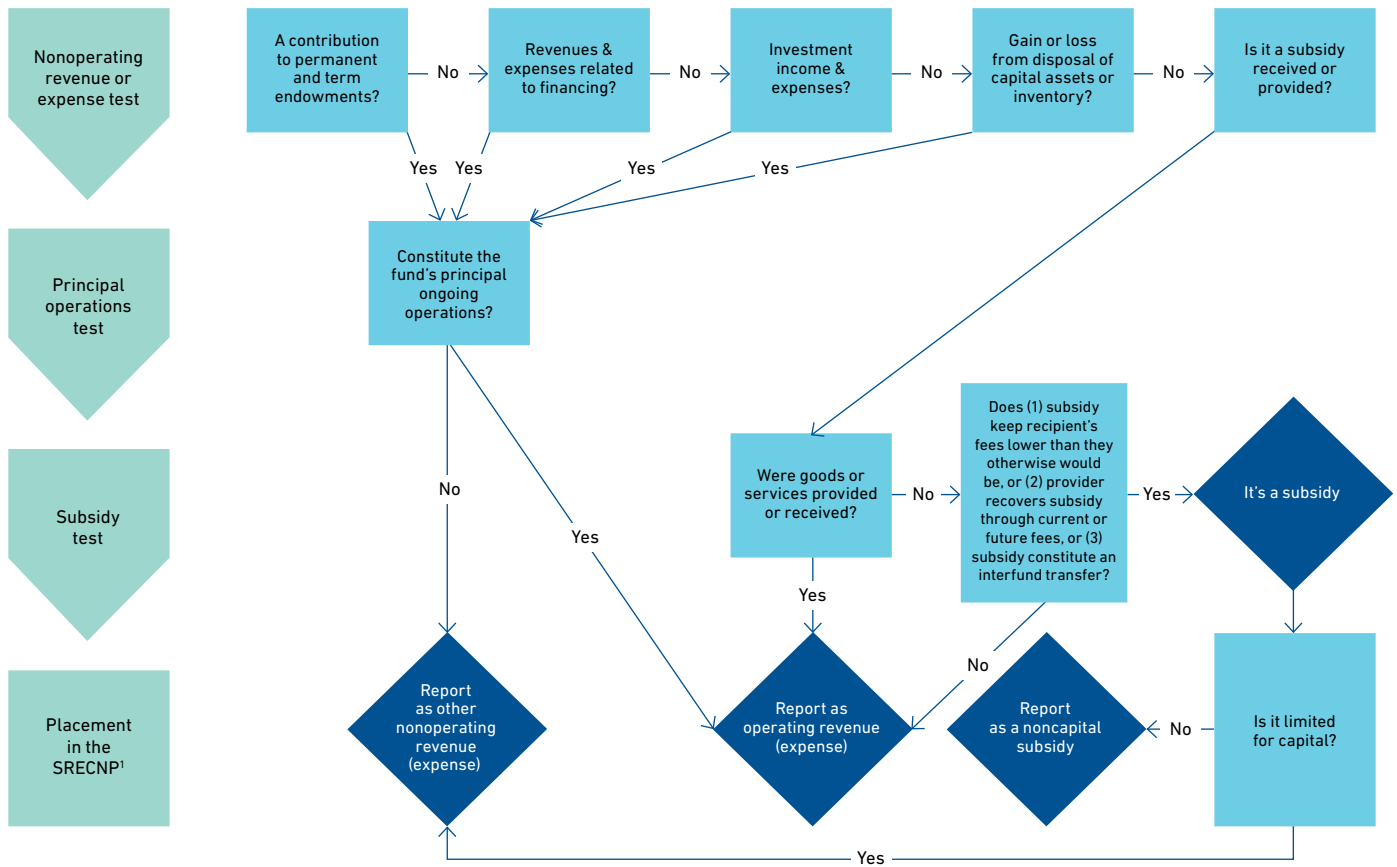
PATH 3

Is it a subsidy?

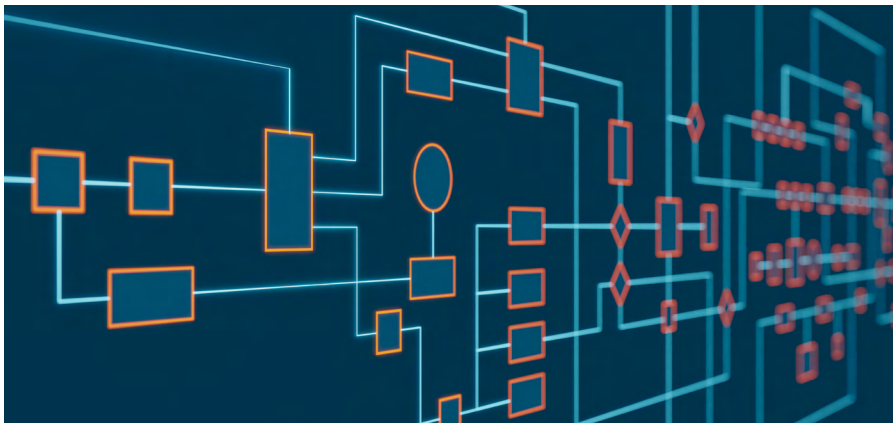
If a transaction is not captured by the nonoperating categories in Path 1, the decision tree requires an evaluation of whether the transaction meets the definition of a subsidy. This analysis also applies to both inflows (revenues) and outflows (expenses).

The initial subsidy question asks whether goods or services were provided to the resource provider by the enterprise fund, or were received from the recipient of the fund's resources.

EXHIBIT 1 | GASB 103: Proprietary Fund Transactions Reporting



¹Statement of Revenue, Expense and Change in Net Position (SRECNP)



When these decision trees are used before or early in the preparation of financial statements, they reduce the likelihood of disagreements and restatements late in the audit process.

If so, the transaction is reported as operating revenue or expense. If no goods or services are provided or received, the analysis continues to the determination of whether (1) the transaction either helps keep the charges to customers of the enterprise fund lower than they otherwise would be (in the case of inflows to the enterprise fund), (2) the amount is recoverable through current or future pricing policies of the enterprise fund (in the case of outflows from the enterprise fund), or (3) constitute other transfers. Transactions meeting these criteria are classified as subsidies.

Path 3c
Is the subsidy limited for capital purposes?

For transactions identified as subsidies, the final step evaluates whether the subsidy is limited to capital purposes. GASB 103 emphasizes that merely using resources for capital expenditure does not automatically create a capital subsidy. Instead, the limitation may be

established through bond documents, grant agreements, legislation, budgets, or similar authoritative sources. While professional judgment is needed, the limitation on the use of funds for capital purposes need not rise to the level of a restriction or a commitment.

PATH 4
Placement within the Statement of Revenues, Expenses and Changes in Net Position

Following the paths leads to the decision on where to place the transaction on the *Statement of Revenues, Expenses and Changes in Net Position*.

The new format of the statement helps users understand the proprietary fund's operating results, including the application of noncapital subsidies (i.e., operating subsidies), which—like customer fees and charges—are intended to cover the cost of operations. Only after this new total of operating income (loss) plus nonoperating subsidy subtotal is displayed

are other nonoperating revenues and expenses and unusual or infrequent items factored into the determination of the final increase or decrease in fund net position for the reporting period.

Documenting conclusions and supporting audit review

Governments are increasingly using decision trees as part of formal workpapers. By choosing and documenting each decision point and the rationale applied, preparers provide auditors with transparency into management's judgments. When these decision trees are used before or early in the preparation of financial statements, they reduce the likelihood of disagreements and restatements late in the audit process.

Using the decision tree beyond initial implementation

While many governments may initially develop decision trees to address first-time adoption of GASB 103, these tools can also be incorporated into ongoing accounting policies and procedures. Applying the decision tree annually helps ensure consistent treatment of new or evolving transactions and supports staff training efforts.

Ultimately, GASB 103 requires thoughtful analysis rather than mechanical classification. Structured decision trees help practitioners apply that analysis consistently, transparently, and defensibly—meeting both the spirit and the letter of the standard. **FA**



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