



ACCOUNTING

What's on Your Mind?

Participant Questions from GFOA's 2026 GAAP Update (Part 1)

BY MICHELE MARK LEVINE

During GFOA's annual Governmental GAAP Update,¹ a team of our technical services professional staff answers—as best they can—the questions posed by program participants. The subjects, not surprisingly, generally relate to the topics addressed by the presenters, but also clearly reflect the topics that are of most interest to the participants. By either measure, *GASB 103, Financial Reporting Model Improvements*, seems top of mind for all involved. For a refresher on GASB 103, please see “Getting a Makeover: GASB Spruces Up a Quarter-Century Old Financial Reporting Model Without Disruptive Change” from the October 2024 issue of *GFR*. No other topics received even half the number of questions, so we'll focus this article on those related to this new standard and hold off on addressing other topics until the February 2026 issue of *GFR*.

Proprietary fund subsidies

The most prevalent subject of questions on GASB 103 was about distinguishing between operating and

nonoperating revenue and expenses, including identifying both capital and noncapital *subsidies*, a subcategory of the latter. Let's start by talking about subsidies, and then look at a few other questions about operating versus nonoperating items.

The distinction between capital and noncapital (i.e., operating) subsidies is particularly important under GASB 103, as noncapital subsidies are reported under a new heading on the statement of revenues, expenses, and changes in fund net position for proprietary funds (here intended to include stand-alone business-type activities, such as public utilities). The total of noncapital subsidies is then included in a new subtotal with the net operating income or loss for the year, which is a good measure of the overall results of operations after considering the subsidies intended to cover operating costs. Capital subsidies, on the other hand, are grouped with other nonoperating revenues and expenses and reported lower down on the statement.

Let's start by revisiting the definition of subsidies, which is new in GASB 103, directly quoted from the standard:²

The most prevalent subject of questions on GASB 103 was about distinguishing between operating and nonoperating revenue and expenses, including identifying both capital and noncapital *subsidies*, a subcategory of the latter.

14. Subsidies are defined as follows:

- a. Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund, and (2) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise
- b. Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund, and (2) that are recoverable through the proprietary fund's current or future pricing policies
- c. All other transfers.

Grants versus subsidies

Several questions regarding the use of the new *subsidies* language asked whether that term completely replaces the term *grants*. The term *grants* remains not only an allowable term but often the best description of a kind of transaction, even in proprietary funds. Most of what we call *grants* will fit into the above definition of subsidies for proprietary funds and will therefore be categorized and reported with either noncapital or capital subsidies, as appropriate, in proprietary funds. For certain kinds of grants however, such as certain research grants received by colleges and universities, the recipient

may provide goods or services or the receipt of the grant may not keep fees and charges (tuition and fees) lower than they would be if the institution did not receive the grant—so we can't automatically assume everything that is currently called a *grant* is a *subsidy* as defined by GASB 103 without analysis of the substance of the transaction.

Capital versus noncapital subsidies

Questions about distinguishing capital from noncapital subsidies included a few about transfers between funds. We received a few questions asking if transfers are all in one category—non-capital subsidies—or if some transfers might be capital. Transfers can be either capital or noncapital to the recipient fund, but would generally be noncapital for the provider fund unless the transfer is of a capital asset rather than of resources restricted for use for capital purposes—in which case it would be a capital subsidy reported with other nonoperating revenues and expenses. The key to distinguishing for the recipient is not how it uses the resources, but whether the *provider* has restricted their use to capital purposes, which is the only case in which they should be shown as capital subsidies received.

One participant questioned whether a transfer that is restricted for use for debt service on the recipient's capital assets would be considered a capital subsidy by the receiving fund. Interestingly, this is a topic that is being considered for an anticipated GASB implementation guidance update, an exposure draft of which (IG ED) is under development by GASB staff and is scheduled to be released in February 2026. While

considerations of topics for a possible due process document are a very far cry from being authoritative, it's instructive to reflect on the discussions about the topic that have taken place in public GASB board meetings. A new question and answer that is under consideration for the IG ED and that received tentative support from the GASB board members would state that subsidies limited by the provider for use on the recipient's debt service for capital-related debt should be classified as capital subsidies received.

Passenger and customer facilities charges

One engaged participant asked several questions related to the treatment by airports of passenger facilities charges (PFCs), which are added to the cost of airfare paid by air passengers, and customer facilities charges (CFCs), which are added to the cost of car rentals. Following pre-GASB 103 guidance, most airports have treated PFCs and CFCs as nonoperating revenues.³ Like the question of transfers restricted to debt service on capital assets, PFCs may be addressed in the expected IG ED discussed above. A new question and answer that is under consideration for the IG ED, and that also received tentative support from the GASB board members in a public meeting, would state that PFCs meet the definition of subsidies to the airports that receive them. Presumably, the same would apply to CFCs.

The reasoning discussed by the board is that while passengers may receive services (use of airport facilities) from the *airport receiving the PFCs*, there is no direct linkage between the payments made by the passengers and the services they receive. This is because PFCs

are added to the cost of airfare in an exchange between passengers and airlines to which the airport benefiting from the PFC revenue is not party, and thus PFCs would meet the criteria in 14.a [1] of the subsidy definition above. (An analogy that may be helpful here would be to the treatment of derived tax revenues. While a state or local government may levy sales taxes on exchange transactions between vendors and customers, and the customers may benefit from government services so funded, there is no direct linkage between the sales taxes paid by the customers and the services provided by the government.) Because airports would otherwise need to increase fees charged to airlines and other tenants to cover the cost of facilities, PFCs would also meet the criteria in 14.a [2].

Operating versus nonoperating revenues and expenses

Unlike under prior GAAP, where governments had some flexibility to define what constituted operating revenues and expenses for themselves, GASB 103 has moved us to much more uniformity. [3] Specifically, we are told what constitutes nonoperating revenues and expenses and that everything else falls into the now residual classification of operating activities. Here is another quote from GASB 103, defining nonoperating revenues and expenses:⁴

Nonoperating revenues and expenses are:

- (a) subsidies received and provided,
- (b) contributions to permanent and term endowments,
- (c) revenues and expenses related to financing,
- (d) resources from the disposal of capital assets and inventory, and
- (e) investment income and expenses.

Revenues or expenses that otherwise would be classified as nonoperating in most proprietary fund financial statements should be classified as operating revenues or operating expenses if those transactions constitute the proprietary fund's principal ongoing operations.

Mixed-purpose payments

Several participants posed questions about transfers and payments in lieu of taxes (PILOT) that are composed of multiple components, with some portions meeting the definition of a subsidy or other nonoperating revenue or expense, and the rest being a payment for direct or indirect costs incurred by the provider on behalf of the recipient – some of which might be operating and some, nonoperating. Of course, these folks pretty much answered their own questions just by pointing out the diversity within a payment stream. Since accounting and financial reporting standards are written to reflect the economic substance rather than the form of transactions, mixed-purpose payments and transfers will need to be reported as separate kinds of transactions. And yes, a single payment might end up in two or even three (operating, noncapital subsidies, and other nonoperating revenues and expenses) sections of a proprietary fund's statement or revenues, expenses, and change in fund net position.

Lessor treatment of revenue from leases

One participant sought to confirm their understanding that renting out property would result in operating revenue for a proprietary fund, whereas prior to GASB 103, it was treated as nonoperating revenue. To be precise, the answer is that leasing out property is likely to be a source of both operating and nonoperating revenue. GASB's Implementation Guide No. 2025-1, *Implementation Guidance Update—2025* [IG 2025-1], questions 4.3 and 4.4, address the treatment by proprietary

fund lessors of lease interest income and lease revenue (from the amortization of the lessor's deferred inflows of resources from leasing). Together, the answers tell us that the lease revenue does not meet the definition of nonoperating revenue and therefore defaults to being reported as operating revenue, and that the interest income is nonoperating revenue even if leasing out property is the principal ongoing operation of the fund.

Insurance and litigation settlement proceeds

Another participant asked whether litigation settlements received would be operating or nonoperating revenue in a proprietary fund. While it may be possible for litigation settlements or insurance payments to fall into the nonoperating definition if they could be characterized as being resources from the disposal of capital assets, many, if not most, of these will not meet any of the nonoperating categories and so should be reported as operating revenue. The author sees no instances in which the payment of litigation settlements would be nonoperating expenses.

Major fund determination

In the GAAP Update, we noted that GASB 103 might affect the determination of major funds for some governments, and we received a related question. Even if we had not been asked for clarification, that explanation bears repeating. As said earlier, transfers are defined as being subsidies, and subsidies are part of nonoperating revenue—unlike prior guidance that excluded transfers from the calculation of revenues and expenses totals in proprietary funds that are used in the 10 percent and 5 percent tests identifying major enterprise funds (this was discussed, and an example provided, in “A Minor Change to Major Funds” in the October 2025 issue of *GFR*). Where transfers are a significant inflow or outflow for one or more enterprise funds, this change in the calculation will likely result in different enterprise and governmental funds (based on the 5 percent test using the total of both governmental and enterprise funds) being required to be reported as major funds.

RSI is only required—and only permitted—to include budgetary comparison schedules for the general fund or its equivalent and for those major special revenue funds for which annual or biennial budgets that bear the force of law.

MD&A

Moving away from operating versus nonoperating revenues and expenses in general, and subsidies in particular, we received questions on other aspects of GASB 103 as well. As discussed in “Getting a Makeover: GASB Spruces Up a Quarter-Century Old Financial Reporting Model Without Disruptive Change” (*GFR*, October 2024), GASB 103 made several changes to the management’s discussion and analysis (MD&A), which is required supplementary information (RSI) for governmental financial statements in accordance with GAAP. A few participants questioned whether information that is required to be included must be presented in the order listed in GASB 103, and whether additional information may be included. The answer to the first question is no—there is no requirement that MD&A sections be presented in any order. The answer to the second question is also no—there is no change to the requirement that any RSI contain only the specifically required information (hence the name).

However, most *objective* information can be fit into one of MD&A’s broader categories, such as the required content on currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or on the results of operations. For this category, GASB 103’s nonexclusive list of examples includes relevant factors used to develop the subsequent year’s budget and the expected changes in budgetary net position. One participant pointed out the seeming contradiction of these inclusions and the GASB 103 requirement to move discussion of budgetary variations out of MD&A and include it in notes to the budgetary comparisons in other RSI.


However, the currently known facts are likely to give readers insight into the future, whereas budgetary variances are more purely retrospective.

Budgetary reporting

And while we’re on the topic of budgetary comparison reporting, let’s address some of the many questions received on this topic. A few participants asked for which funds budgetary comparisons will now be required in RSI, and the answer is that there is no change to which funds are included in this mandatory budgetary reporting. RSI is only required—and only permitted—to include budgetary comparison schedules for the general fund or its equivalent and for those major special revenue funds for which annual or biennial budgets that bear the force of law (legally adopted time-based budgets). These RSI schedules must be prepared on a budgetary basis and, under GASB 103, are required to display the original adopted budget, the final adopted budget, and the actual results, as well as two variance columns showing the differences between the original and final budgets and between the final budget and actual results. If the budget was not amended during the fiscal year, governments would not need to separately display the final adopted budget or the variance column between the original budget and the final adopted budget, but should have one column labeled as being both the original and final budget.

For governments that prepare ACFRs, supplementary budgetary reporting for all other governmental funds with legally adopted time-based budgets is required. If the government’s RSI schedules for the general fund and major special revenue funds are not shown

at the legal level of budgetary control, which is required of the supplementary budgetary schedules, schedules at that level of detail for those funds will be included as well. There are no requirements to provide budgetary comparisons for any other funds, such as enterprise funds or internal service funds, even if they also have legally adopted, time-based budgets. However, unlike in RSI, governments have wide flexibility as to what they include in supplementary information other than RSI, and may choose to include budgetary comparison information for funds of other fund types.

As the first standard making widespread changes to the governmental financial reporting model in a quarter century, and the next major implementation hurdle for many governments, it’s no surprise that GASB 103 is top of mind for so many of us! 

¹ “GAAP” is an acronym for “generally accepted accounting principles,” which are the authoritative accounting standards with which governments must comply to receive an unmodified (clean) independent auditor’s opinion. GAAP applicable to US state and local governments are promulgated by the Governmental Accounting Standards Board.

² GASB Statement No. 103, *Financial Reporting Model Improvements*, paragraph 14.a.–c.

³ This was based on paragraph 102 of GASB Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

⁴ Extracted from GASB 103, paragraph 13.



Michele Mark Levine is the director of GFOA’s Technical Services Center.