North Carolina Office of the State Controller

2025 Governmental Accounting Update

Day One: June 3, 2025

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Today’s Agenda

GASB Statements Currently Being Implemented

- Statement 101 on compensated absences
- Statement 102 on certain risk disclosures
- Statement 103 on financial reporting model improvements
- Statement 104 on capital asset disclosure

GASB Implementation Guides and Recent and Forthcoming Guidance

Forthcoming Statement on Subsequent Events

June 30 to November 30 FYEs

Statement and FY Effective		***Potential Level of Effort****						
		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GASB 99 – Omnibus (multiple effective dates)	Various		Small					
GASB 100 – Accounting Changes and Error Corrections	2024		Small					
GASB 101 – Compensated Absences	2025			MEDIUM				
GASB 102 – Certain Risk Disclosures	2025				Small			
GASB 103 – Financial Reporting Model Improvements	2026				MEDIUM			
GASB 104 – Disclosure of Certain Capital Assets	2026					Small		

*Based on June–November fiscal years

Derived from a slide created by the GASB

December 31 FYEs

Statement and FY Effective		*Potential Level of Effort**						
		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GASB 99 – Omnibus (multiple effective dates)	Various		Small					
GASB 100 – Accounting Changes and Error Corrections	2024		Small					
GASB 101 – Compensated Absences	2025		MEDIUM					
GASB 102 – Certain Risk Disclosures	2025			Small				
GASB 103 – Financial Reporting Model Improvements	2026				MEDIUM			
GASB 104 – Disclosure of Certain Capital Assets	2026				Small			

*Based on December 31 fiscal years

Derived from a slide created by the GASB

January 31 to May 31 FYEs

Statement and FY Effective		*Potential Level of Effort**						
		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GASB 99 – Omnibus (multiple effective dates)	Various			Small				
GASB 100 – Accounting Changes and Error Corrections	2024			Small				
GASB 101 – Compensated Absences	2025			MEDIUM				
GASB 102 – Certain Risk Disclosures	2025				Small			
GASB 103 – Financial Reporting Model Improvements	2026					MEDIUM		
GASB 104 – Disclosure of Certain Capital Assets	2026					Small		

*Based on January–May fiscal years

Derived from a slide created by the GASB

Pace of New Statement Implementation

June 30 to November 30 FYEs

Statement and FY Effective		Potential Level of Effort*
		FY 2022 / FY 2023 / FY 2024 / FY 2025 / FY 2026 / FY 2027 / FY 2028
GASB 99 – Omnibus (multiple effective dates)	**Various**	Small
GASB 100 – Accounting Changes and Error Corrections	**2024**	Small
GASB 101 – Compensated Absences	**2025**	MEDIUM
GASB 102 – Certain Risk Disclosures	**2025**	Small
GASB 103 – Financial Reporting Model Improvements	**2026**	MEDIUM
GASB 104 – Disclosure of Certain Capital Assets	**2026**	Small

*Based on June–November fiscal years

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GASB Effective Dates: June FYEs

Statement and FY Effective		Potential Level of Effort*
		FY 2020 / FY 2021 / FY 2022 / FY 2023 / FY 2024 / FY 2025 / FY 2026
GASB 87 – Leases	**2022**	LARGE EFFORT
GASB 89 – Construction-period Interest	**2022**	Minimal
GASB 91 – Conduit Debt	**2023**	Small
GASB 92 – Omnibus (multiple effective dates)	**Various**	Small
GASB 93 – LIBOR Removal and Lease Modifications	**2022**	Small
GASB 94 – Public-Private Partnerships	**2023**	MEDIUM
GASB 96 – SBITA	**2023**	LARGE EFFORT
GASB 97 – Certain Component Unit Criteria/Section 457 plans	**2022**	Small
GASB 98 – The Annual Comprehensive Financial Report	**2022**	Minimal
GASB 99 – Omnibus (multiple effective dates)	**Various**	Small
GASB 100 – Accounting Changes and Error Corrections	**2024**	Small
GASB 101 – Compensated Absences	**2025**	MEDIUM

*Based on June 30/August 31/September 30 fiscal years

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2 YEARS AGO

POLLING QUESTION 1

GASB STATEMENTS CURRENTLY BEING IMPLEMENTED

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GASB Statement No. 101, *Compensated Absences*

Effective starting with fiscal years ending December 31, 2024

Why did the GASB issue this Statement?

The existing standards for compensated absences, principally Statement 16, had been in effect for over 24 years when the GASB began to reexamine them in 2018

The GASB's reexamination found:

- Variation in how the standards were being applied
- A need for guidance for certain types of leave, such as paid time off (PTO)
- Provisions of the standards that were inconsistent with the Conceptual Framework, including using different recognition for conceptually similar leave and allowing two different methods of accounting for sick leave
- Certain required disclosures were not as valuable to users as others

Key Differences in the New Standards

Provisions	Statement 16	Statement 101
Types of leave	Vacation and other non-contingent leave; sick leave and other contingent leave	All forms of leave
Point of compensation	At the end of employment	As used during employment and at the end of employment
Probability of compensation	Probable (likely to occur)	More likely than not (greater than 50%)
Recognition approach(es)	Two options for sick leave; different approach for vacation	One general approach for all paid leave (with exceptions for practicality and cost-benefit)
Disclosures	Minimal	Even less

Statement 101's View of Paid Leave

Statement 101 views all leave that meets the definition of a compensated absence as conceptually the same

A single general approach is required

An exception is made for certain leave based on practicality or cost-benefit considerations

Comprehensive Definition

Compensated absences are leave for which employees receive:

Cash when leave is used

or

Other cash payments, such as upon termination

or

Noncash settlements

Types of Leave and Their Recognition

Covered by the general approach	Excluded from the general approach
• Sick leave • Vacation leave • Paid time off (PTO) • Unrestricted sabbatical leave • Other leave not specifically excluded from the general approach	• Parental leave • Military leave • Jury duty • Other leave that depends upon the occurrence of a sporadic event that affects a relatively small proportion of employees • Unlimited leave • Holiday leave that is taken on a specific date not at the employees’ discretion

Scope

Only *unrestricted* sabbatical leave is a compensated absence

- During unrestricted sabbatical leave, an employee is not required to perform any significant duties for the government
- Sabbatical leave during which an employee is required to perform duties of a different nature for the government (such as research instead of teaching) is **not** a compensated absence

Termination benefits within the scope of Statement 47, as amended, are not compensated absences

- Termination benefits are provided to hasten the termination of employment, as a result of a voluntary early termination, or as a consequence of involuntary early termination
- Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits

Scope: Defined Benefit Pension & OPEB

Leave that will be settled through conversion to defined benefit pensions or OPEB *should not* be recognized as a liability for compensated absences

Leave to be settled through conversion to defined benefit pensions or OPEB already is included in the measurement of the net pension liability and net OPEB liability

POLLING QUESTION 2

General Approach to Liability Recognition

A liability for compensated absences should be recognized for leave that meets all three of the following criteria:

1. Is attributable to services already rendered
2. Accumulates—it carries forward into future periods during which it can be used, paid for, or settled
3. Is more likely than not to be used, paid, or settled

For leave that is excluded from the general approach, recognize a liability, including any salary-related payments, when leave commences

More Likely Than Not

Relevant factors for assessing whether it is more likely than not that leave will be used for time off or otherwise paid in cash or settled through noncash means include, but are not limited to:

- The government's employment policies
- Whether leave that has been earned is – or will become – eligible for use or payment in the future
- The government's historical experience with the use, payment, or forfeiture of compensated absences
- Information known to the government that would indicate historical experience may not be representative of future trends or patterns

General Approach to Measurement

(Accumulated leave that meets the three recognition criteria × Employee's pay rate *at the financial statement date*)

\+ Salary-related payments

= **Liability**

Salary-related payments

Measurement of the liabilities for both leave that has been used and not used should include salary-related payments that are both:

- Directly associated with the leave—payment depends on the amount of salary to be paid, *and*
- Incrementally associated with the leave—payment is in addition to the payment of the salary

Examples include the employer share of Social Security and Medicare taxes, possibly employer payments related to DC pensions and OPEB, but *never* payments related to DB pensions and OPEB

Pay Rates for Measurement

A liability should be measured using an employee's pay rate *as of the date of the financial statements*

Additionally:

- Leave more likely than not to be paid at a rate different from the employee's pay rate should be measured using the different rate
- Leave not attributable to a specific employee, such as leave donated to a shared pool, should be measured using an estimated pay rate representative of the eligible employees
- Leave more likely than not to be settled by noncash means other than conversion to DB pension or OPEB should be based on the amount for which it is more likely than not to be settled

Tentative Implementation Guidance (Q4.15)

- Q—Is a future pay rate that is known (for example, the next year's salary increases are approved or a collective bargaining agreement is in place) a rate different from the employee's pay rate at the time the payment is made as described in paragraph 17 of Statement 101?
- A—No. Paragraph 17 of Statement 101 describes a circumstance in which leave is more likely than not to be paid at a rate different from the employee's pay rate in effect at the future date when the payment is made, such as a percentage of that pay rate or a set dollar amount. Governments should not use future pay rates, even if known, in the measurement of the liability for leave that is more likely than not to be paid at the future pay rate. Paragraph 20 of Statement 101 requires future pay rate changes to be recognized in the period of the change.

Governmental Fund Reporting

Recognize expenditures in the amount of compensated absences that normally would be liquidated with expendable available financial resources

A liability should be reported on a basis consistent with governmental fund accounting principles

POLLING QUESTION 3

Reduced Disclosure Requirements

Long-term liabilities note:

- Beginning and ending balances for the year
- Changes in the liability during the year as *either*:
  - Separate increases and decreases, *or*
  - **NEW** *A net increase or net decrease, as long as it is indicated as net*
- The portion of the ending balance due within one year
- Disclosure of the governmental funds used to liquidate the compensated absence liability *no longer is required*

Long-Term Liabilities Disclosure

The following is a summary of changes in long-term debt and liabilities for governmental activities:

	Beginning Balances	Additions	Reductions	Ending Balances	Total Current Liabilities	Total Noncurrent Liabilities
Governmental activities:						
Bonds:						
General obligation bonds	$ 24,465,000	$ -	$ (790,000)	$ 23,675,000	$ 410,000	$ 23,265,000
General obligation premiums	5,532,188	-	(438,612)	5,093,576	-	5,093,576
Revenue bonds	258,437,528	-	(8,482,528)	249,955,000	10,360,000	239,595,000
Revenue premiums	28,177,982	-	(2,840,845)	25,337,137	-	25,337,137
Total bonds	316,612,698	-	(12,551,985)	304,060,713	10,770,000	293,290,713
Notes payable (direct debt)	26,818,004	-	(4,847,349)	21,970,655	4,224,527	17,746,128
Arbitrage rebate payable	21,483	-	(863)	20,620	-	20,620
Capital leases payable	13,016,991	-	(4,030,952)	8,986,039	3,281,696	5,704,343
Compensated absences payable, net	19,763,107	8,025,728	(7,526,917)	20,261,918	9,194,370	11,067,548
Insurance claims payable	14,365,340	31,905,180	(27,302,369)	18,968,151	5,494,657	13,473,494
Net pension liability	104,024,038	552,764	-	104,576,802	-	104,576,802
Net OPEB liability, as restated*	10,028,841	53,794	-	10,082,635	-	10,082,635
Total Governmental Activities	$ 504,650,502	$ 40,537,466	$ (56,260,435)	$ 488,927,533	$ 32,965,250	$ 455,962,283

498,811 **

* Beginning balance was restated in the current fiscal year. See Note Q ** Net of reductions.

For the governmental activities, compensated absences, pension liabilities and other post-employment benefits are generally liquidated by the General Fund. About 87% has been charged to governmental funds and about 13% to enterprise funds.

Internal service funds predominantly serve the governmental funds. Accordingly, their long-term liabilities totaling $18.4 million are included as part of the above totals for governmental activities.

Bonds outstanding at September 30, 2021 payable from governmental activities are comprised of general obligation, special obligation and tax increment revenue bonds. These bonds mature in varying amounts during succeeding fiscal years through 2050. Interest rates on these long-term obligation ranges from 4.00% to 5.00% on general obligation bonds, 1.10% to 5.00% on special obligation bonds and 2.25% to 5.68% on tax increment revenue bonds.

Effective Date and Transition

Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter

- FYEs December 31, 2024; March 31, 2025; June 30, 2025; September 30, 2025
- Earlier application is encouraged

At transition, report as a change in accounting principle in accordance with Statement 100

Potential Effects on Liability Recognition

Provision	Potential Effect on Liability	Explanation
All paid leave included	Increase	Liability could include leave not explicitly identified in Statement 16
Includes paid leave used during employment	Increase	Leave that can be used during employment (but not paid for at termination) could be included in the liability
“More likely than not” rather than “probable”	Increase	Leave with a probability of being used or paid greater than 50% but less than probable would be included in the liability
General recognition approach	Increase or decrease	For instance, due to no longer using the vesting method for sick leave

Considerations for Implementation

- Locate and review all policies related to paid leave – what is offered and does the general approach apply?
- Which classes of employees are the various types of leave provided to and what are the historical patterns of the leave being used and/or paid for?
- If a government provides types of paid leave that are not specifically identified in Statement 101, are they “leave that depends upon the occurrence of a sporadic event that affects a relatively small proportion of employees”?
- What is the status of record keeping related to active employees and balances for each type of paid leave? Are the records complete?
- Are there leave balances that can be used in future years but not paid for at termination (which may now need to be included in the liability)?

Considerations for Implementation (cont'd)

- Are there leave balances that are not *probable* of being used, paid for, or settled, but *are* more likely than not (which may now need to be included in the liability)?
- How has the liability calculation been done in the past? Is that an appropriate starting point for applying Statement 101?
- What is the flow assumption – LIFO or FIFO?
- How does the summary of significant accounting policies need to be revised to address implementation?
- What should be reported and disclosed related to the change in accounting principle?

POLLING QUESTION 4

GASB Statement No. 102, *Certain Risk Disclosures*

Effective starting with fiscal years ending June 30, 2025

Why Did GASB Issue This Statement?

Stakeholders asked the GASB to address this issue

The GASB considered incorporating AICPA SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties,* during the project that led to GASB Statement 62

- The GASB decided not to do so, believing the guidance needed to be examined in a governmental context
- FASB incorporated and amended SOP 94-6 as ASC Topic 275, Risks and Uncertainties, which required disclosure of risks and uncertainties relating to the nature of operations, use of estimates, and certain concentrations

Risks to Be Disclosed

A government may be vulnerable to risks that are based on certain concentrations and constraints that limit its ability to acquire resources or to control spending.

Certain concentrations

- A lack of diversity related to an aspect of a significant revenue source or expense
- For example, employers, industries, revenue providers, revenue types, workforce covered by collective bargaining agreements, and suppliers

Certain constraints

- Imposed externally or by formal action of a government's highest level of decision-making authority
- For example, limits on raising revenue, on spending, or on incurrence of debt; and mandated spending,

Disclosure Criteria

A government should apply the disclosure requirements if *all of the following criteria* are met:

1. A concentration or constraint is known to the government prior to the date the financial statements are available to be issued
2. The concentration or constraint makes the government vulnerable to the risk of a substantial impact
3. An event or events associated with the concentration or constraint that could cause the substantial impact has occurred, begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are available to be issued

Other Disclosure Principles

If mitigating actions taken by the government prior to the issuance of the financial statements cause any of the disclosure criteria not to be met, no disclosure is required

The disclosure criteria should be assessed for the primary government and all other reporting units that report a liability for revenue debt

In comparative statements, the requirements only apply to the current period

A government should provide information in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact associated with the concentration or constraint

Required Notes to Financial Statements

For each concentration and constraint that meets all of the disclosure criteria, disclose the following:

- A description of the concentration or constraint and other information in sufficient detail to enable users to understand their nature and the government's vulnerability to the risk of a substantial impact.

If the event or events associated with the concentration or constraint occurred before the financial statements are available to be issued, also disclose the following:

- A description of each event associated with the concentration or constraint that could cause a substantial impact.
- A description of actions taken by the government to mitigate the substantial effect.

Statement 102: Disclose or Not?

Froward County	Is Disclosure Required?
1. Approximately half of the county's private sector employees are employed by Gallivant Industries	
2. Gallivant announces it is moving its headquarters – and all of its jobs – to a location hundreds of miles away	
3. Assume instead the county's CFO hears from a reliable source that Gallivant is planning to move its headquarters	
4. The county then agrees with Loyalty Ltd. to move its manufacturing plant into the county, replacing 90% of the lost jobs	

a. Concentration is known to the government
b. Concentration makes the government vulnerable to the risk of a substantial impact
c. Event(s) that could cause the substantial impact has occurred, begun to occur, or is more likely than not to begin to occur within 12 months
d. Mitigation efforts, if any, have not resulted in a criterion no longer being met

Statement 102: Disclose or Not?

Froward County	Is Disclosure Required?
1. Approximately half of the county's private sector employees are employed by Gallivant Industries	
2. Gallivant announces it is moving its headquarters – and all of its jobs – to a location hundreds of miles away	
3. Assume instead the county's CFO hears from a reliable source that Gallivant is planning to move its headquarters	
4. The county then agrees with Loyalty Ltd. to move its manufacturing plant into the county, replacing 90% of the lost jobs	
5. Next year, CopyCat Co., which accounts for 5% of local employment files for bankruptcy	

Statement 102: Disclose or Not?

City of Town Village	Is Disclosure Required?
1. State law limits cities to outstanding debt of no more than 2% of the assessed value of property	
2. At the end of the fiscal year, the City's debt margin is just 3% of its debt limit or $3 million. Assessed values for the next fiscal year are flat. The City's capital budget includes issuing $6 million of bonds.	
3. Assume instead that the state supreme court rules that all long-term financings, including leases, are subject to the debt limit, putting the City over its limit by 15%	

a. Concentration is known to the government
b. Concentration makes the government vulnerable to the risk of a substantial impact
c. Event(s) that could cause the substantial impact has occurred, begun to occur, or is more likely than not to begin to occur within 12 months
d. Mitigation efforts, if any, have not resulted in a criterion no longer being met

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3. Assume instead that the state supreme court rules that all long-term financings, including leases, are subject to the debt limit, putting the City over its limit by 15%	
4. In response to the supreme court decision, the governor announces she will ask the legislature to amend the law to increase the debt limit.	

POLLING QUESTION 5

Relationship with Other Disclosures

Certain disclosures required by this Statement may supplement or overlap with other required disclosures.

In those circumstances, the information required to be disclosed by this Statement may be combined or included as part of those disclosures.

In addition, the note disclosure requirements of other Statements may be met by the note disclosures required by this Statement.

Effective Date

Effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

- FYEs June 30, 2025; September 30, 2025; December 31, 2025; March 31, 2026.
- Earlier application is encouraged.

Considerations for Implementation

This is an exception-based disclosure and, therefore, should not be expected to occur regularly

Catalog the concentrations and constraints that a government faces

Evaluate whether those concentrations and constraints make the government vulnerable to a substantial impact

Considerations for Implementation

- Has anything happened or started to happen that may trigger that substantial impact? What specifically is the event?
- Alternatively, is something more likely than not to begin to occur within 12 months of the date the financial statements are available to be issued?
- What information needs to be disclosed about the concentration or constraint (and possibly the event) for the note to sufficiently inform the user?

GASB Statement No. 103, *Financial Reporting Model Improvements*

Effective starting with fiscal years ending June 30, 2026

Why Did GASB Issue This Statement?

Statement 34 was issued in 1999 and became primarily effective between 2002 and 2004

The GASB conducted research reexamining Statements 34, 35, 37, 41, and 46 and Interpretation 6 from August 2013 to July 2015

Most parts of the standards were functioning properly, but participants in the research identified provisions that could be improved

What Does Statement 103 Cover?

- Management’s discussion and analysis (MD&A)
- Unusual or infrequent items
- Proprietary funds statement of revenues, expenses, and changes in fund net position
- Major component units
- Budgetary comparisons

What Is NOT in Statement 103?

Governmental fund financial statements were dropped from the scope of the project

The intention had been to develop a conceptually pure measurement focus and basis of accounting to replace current financial resources and modified accrual

GASB proposed a short-term financial resources measurement focus and accrual basis of accounting, along with changes in the presentation and terminology of the financial statements

The Board determined that the information provided by a conceptually pure model would not be sufficiently meaningful – in its view, the benefits would not be substantial enough to justify the cost

POLLING QUESTION 6

MD&A

Provision	Key Differences in Statement 103
Target reader	May not have a detailed knowledge of governmental accounting and financial reporting and may not be familiar with the government's geographical area
Analyses	Increased emphasis on explaining ***why*** balances and results of operations changed from the prior year, rather than just the amounts of change
	Avoid duplication among sections, if possible, by referring to them rather than repeating the information
Significant capital asset activity	Should cover all capital assets, including intangible assets (e.g., right-to-use assets from leases and SBITAs); significant additions and disposals; significant policy changes, in addition to significant economic factors

MD&A (continued)

Provision	Key Differences in Statement 103
Significant long-term financing activity	Should cover all long-term financings, not just debt: leases, SBITAs, bank loans, financed purchases, etc.; significant policy changes, in addition to significant economic factors
Budgetary discussion	Removed; will accompany the budgetary comparison schedules in RSI
Modified approach discussion	Removed; will accompany the modified approach schedules in RSI
Currently known facts, decisions, and conditions	More specific examples provided

Focus on “Why”

Answer questions beginning with “why” rather than “what”

Use a series of “why” questions to get beyond simply elaborating on “what”

May need to explain multiple reasons for changes, including those with opposite effects

Generally do not need to wait until the numbers are final to begin drafting this

Currently Known Facts, Decisions, or Conditions

Trends in relevant economic and demographic data

Relevant factors used to develop the subsequent year's budget that indicate how results of operations are expected to change in the subsequent year

Expected changes in budgetary net position or fund balance

Actions the government has taken related to pensions/OPEB; capital asset plans; liabilities for leases, PPPs, and SBITAs; and other long-term financings that will affect the subsequent period

Actions other parties have taken that will affect the government, such as new legislation or regulations imposed on the government

MD&A Implementation Considerations

Review current MD&A and consider whether revisions are necessary:

- To be readable by the new target reader
- To explain *why* balances and results of operations changed
- To replace repetitive explanations with references to other sections
- To discuss all types of long-term financing activities, not just debt.
- To address the examples of information that should be discussed in the concluding section on currently known facts, decisions, or conditions, if they are relevant to your government

Begin working on MD&A soon after your fiscal year ends, rather than waiting until the financial statements are nearly finished

Unusual or Infrequent Items

Extraordinary items and special items are combined into a single category of items that are unusual in nature and/or infrequent in occurrence

Should be presented as the *last* inflows and outflows prior to the net change line

Inflows and outflows related to each unusual or infrequent item should be presented separately, not netted

Disclose in notes the program, function, or identifiable activity the item is related to and, if applicable, whether the item is within the control of management

Unusual or Infrequent Items (continued)

Transfers	(18,996)	18,996	-	-
Unusual or infrequent items — flood damage				
Grant revenues	2,500	-	2,500	-
Flood damage cleanup	(10,000)	-	(10,000)	-
Total general revenues, transfers, and unusual or infrequent item	456,996	21,090	478,086	12,527
Change in net position	117,664	9,319	126,983	3,905
Net position—beginning of period	1,616,147	539,077	2,155,224	395,568
Net position—end of period	$ 1,733,811	$ 548,396	$ 2,282,207	$ 399,473

The flood cleanup expenses are shown separately from the related state grant

Note 3—Unusual or Infrequent Items
Sample City experienced a flood during March 20X5 that was a catastrophic event outside the control of management. The City incurred damages in the amount of $10 million attributable to the functions of Public Works and Public Safety in the amounts of $8.35 million and $1.65 million, respectively. Sample City also received $2.5 million in grants from the State to assist with the cleanup effort.

Illustrations from Statement 103

Proprietary Funds (and freestanding BTAs)

New definitions provided for operating and nonoperating revenues and expenses

- Governments will no longer develop and disclose their own definitions

New section and performance measure in the statement of revenues, expenses, and changes in fund net position

Defining Operating and Nonoperating

Statement 34

- Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported
- Consider how transactions would be categorized for a statement of cash flows
- Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would *not* be reported as components of operating income

Statement 103

- Nonoperating revenues and expenses are:
  - **Subsidies received and provided**
  - Contributions to permanent and term endowments
  - Revenues and expenses related to financing
  - Resources from the disposal of capital assets and inventory, and
  - Investment income and expenses
- Operating revenues and expenses are those other than nonoperating

Possible Exceptions

Statement 34

- Revenues and expenses not normally classified as operating may be classified as operating if the transactions constitute the proprietary fund's or BTA's principal ongoing operations
- For example, interest revenue and expense transactions by a proprietary fund or BTA established to provide loans to first-time homeowners

Statement 103

- Revenues or expenses that otherwise would be classified as nonoperating should be classified as operating revenues or expenses if the transactions constitute the entity's principal ongoing operations
- For example, interest revenues should be reported as operating revenues by an entity established to provide loans to first-time homeowners

Subsidies

Resources received from another party or fund:

- For which the proprietary fund does not provide goods and services to the other party or fund, and
- That directly or indirectly keep current or future fees and charges of the proprietary fund lower than they would be otherwise

Resources provided to another party or fund:

- For which the other party or fund does not provide goods and services to the proprietary fund, and
- That are recoverable through the proprietary fund's current or future pricing policies

All other transfers

POLLING QUESTION 7

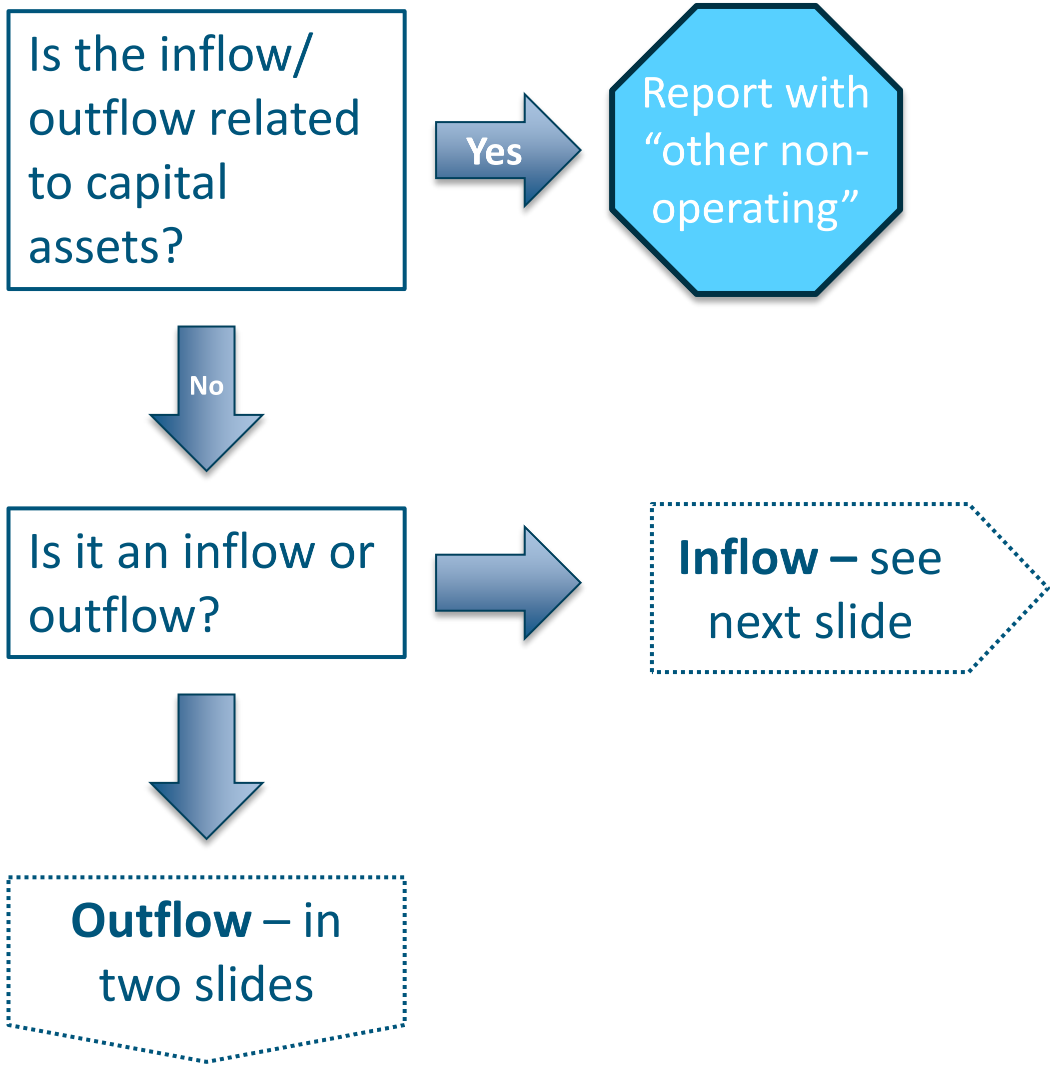
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

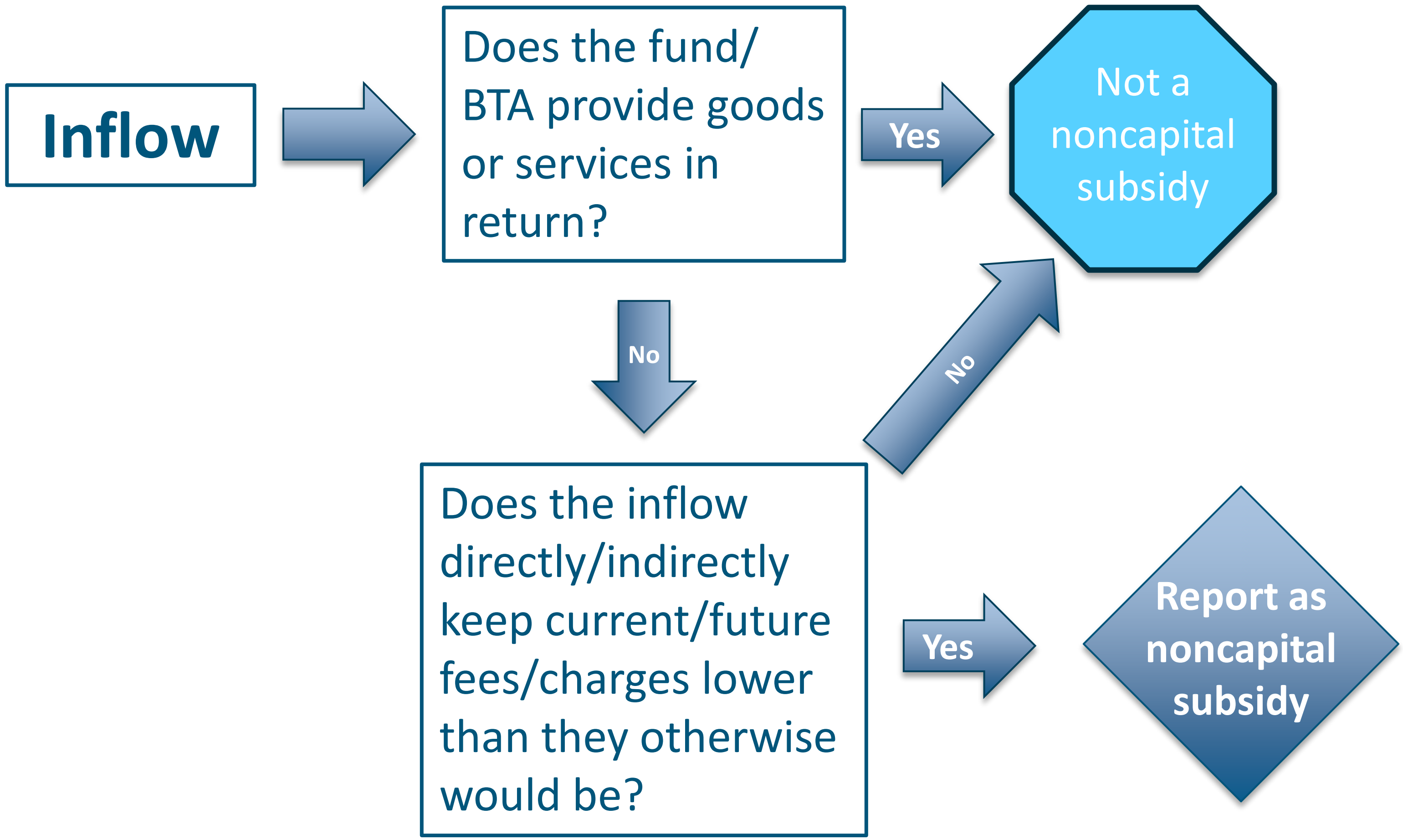
Sample City
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

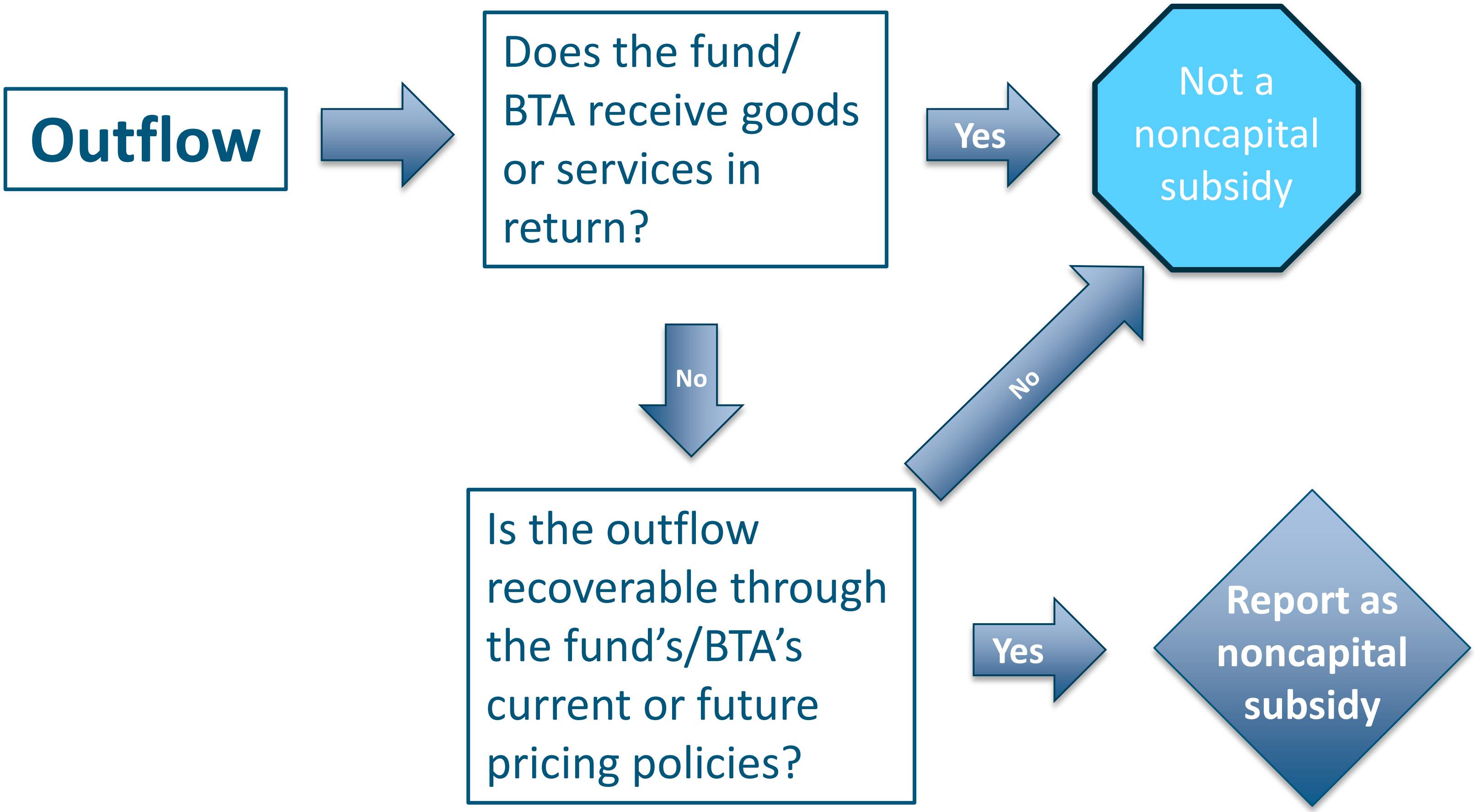
	Enterprise Funds				
	Public Utility	Transit Authority	Golf Courses	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	$ 41,003	$ 18,636	$ 2,561	$ 62,200	$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)
OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Other	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in restricted for capital assets	1,032	15,360	2,384	18,776	1,215
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	1,664
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906
Total fund net position—beginning of period	331,657	177,997	29,423	539,077	12,387
Total fund net position—end of period	$ 333,742	$ 188,365	$ 26,289	$ 548,396	$ 13,293

Illustration from Statement 103

Identifying Noncapital Subsidies




Inflow
Does the fund/ BTA provide goods or services in return?
Yes
Not a noncapital subsidy
No
No
Does the inflow directly/indirectly keep current/future fees/charges lower than they otherwise would be?
Yes
Report as noncapital subsidy


Outflow
Does the fund/ BTA receive goods or services in return?
Yes
Not a noncapital subsidy
No
No
Is the outflow recoverable through the fund's/BTA's current or future pricing policies?
Yes
Report as noncapital subsidy

Tentative Implementation Guidance (Q4.2)

- Q—Paragraph 13 of Statement 103 indicates that interest revenues of a proprietary fund established to provide loans to first-time homeowners should be reported as operating revenues because those transactions constitute the proprietary fund's principal ongoing operations. If this proprietary fund reports interest expenses associated with borrowings that finance operations, would the interest expenses be reported as operating expenses?
- A—No. Interest expenses related to financing are always reported as nonoperating expenses. The interest revenues are related to the operations of the program, whereas the interest expenses are related how the fund obtained resources (financing) to operate its lending program.

Tentative Implementation Guidance (Q4.3)

- Q—If the principal ongoing operation of a business-type activity (BTA) or an enterprise fund is leasing property to other entities, should interest revenue related to leases be reported as operating revenue?
- A—No. Interest revenue is a revenue related to financing, which in accordance with paragraph 13 of Statement 103, is a nonoperating revenue unless financing transactions constitute the proprietary fund's principal ongoing operations. If the principal ongoing operation of a BTA or an enterprise fund is leasing property to other entities, the principal ongoing operation is conveying control of the right to use an underlying asset. Because the interest revenue related to a lease is recognized from providing financing for the operation of conveying control of the right to use an underlying asset, rather than from the operation itself, the interest revenue from a lease should not be reported as operating revenue.

  Although the foundational principle of Statement No. 87, *Leases,* as amended, is that leases are financings, leases are different from other types of financings (such as loans) because a lease results in revenue from conveying control of the right to use an asset through the recognition of the deferred inflow of resources as inflows of resources in subsequent periods.

Tentative Implementation Guidance (Q4.4)

- Q—Paragraph 54 of Statement 87 requires that the deferred inflow of resources related to a lease be recognized as inflows of resources (for example, revenue) over the term of the lease. If reported as revenue, should a BTA or an enterprise fund report those inflows of resources as operating revenue?
- A—Yes. Paragraph 13 of Statement 103 provides that operating revenues are revenues other than nonoperating revenues and that revenues related to financing are nonoperating revenues. As discussed in Question 4.3, only the interest revenue recognized from the lease is related to financing. Revenue recognized from the deferred inflow of resources related to a lease, therefore, is not related to financing. Such revenue does not meet any of the other categories for nonoperating revenue and, therefore, should be reported as operating revenue.

Tentative Implementation Guidance (Q4.5)

- Q—How should subsidies be classified if resources are used for the acquisition of capital assets in circumstances in which the provider of a subsidy did not limit the use of the resources to the acquisition of capital assets?
- A—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. Subsidies are only classified as capital subsidies (that is, all subsidies other than noncapital subsidies) if the provider of the subsidy has limited the use of the resources to the acquisition of capital assets. The recipient's use of all or a portion of a subsidy for capital purposes does not, by itself, result in all or a portion of the subsidy being classified as a capital subsidy. Subsidies other than noncapital subsidies should be reported as other nonoperating revenues and expenses. (See also Question 7.73.2 in Implementation Guide 2015-1, as amended).

Tentative Implementation Guidance (Q4.6)

- Q—Do payments in lieu of taxes (PILOTs) made by a BTA or proprietary fund meet the definition of subsidies?
- A—It depends on the substance of the transaction. In many circumstances, a PILOT is an arrangement in which (a) payment from a BTA or proprietary fund either to the general fund of the primary government or to another government to compensate for tax revenue lost due to tax-exemptions for the purpose of supporting general governmental activities and (b) the BTA or proprietary fund establishes a rate or fee that produces enough revenue above operating expenses to cover the PILOT. In these circumstances, the PILOT would meet the definition of subsidies. However, in other circumstances, a PILOT is a payment from a BTA or proprietary fund to another party or fund for goods or services provided to the BTA or proprietary fund. In those circumstances, the PILOT would not meet the definition of subsidies. The name of the arrangement is not relevant to the determination of whether it is a subsidy for accounting and financial reporting purposes. (See also paragraph 112 of Statement 34, as amended, regarding interfund services provided and used and interfund transfers.)

Tentative Implementation Guidance (Q4.7)

- Q—An insured individual receives covered healthcare services from a governmental healthcare provider, resulting in recognition of a revenue and receivable by the governmental healthcare provider. The third-party insurer is responsible for making payments to the governmental healthcare provider in accordance with the terms of the insurance contract. Does this circumstance meet the criterion established in paragraph 14a of Statement 103 for purposes of the definition of subsidies?
- A—No. Even though the third-party insurer did not directly receive goods or services from the governmental healthcare provider, those payments do not meet the criterion in paragraph 14a. The insured individual received goods or services from the governmental healthcare provider that resulted in the governmental healthcare provider receiving resources in the form of a receivable. The third-party insurer is paying the governmental healthcare provider in place of the insured individual because of the contractual relationship between the insured individual and the third-party insurer.

POLLING QUESTION 8

Revenue & Expense Classification

Inflow/Outflow	Operating or Nonoperating	Subsidy?	Noncapital?
Customer charges for water usage			
Interest on an airport's revenue bonds			
City appropriates $1 million of general fund revenues and transfers to sewage treatment fund for operating support; nothing received in return			
Same, but to be used only for sewer pipe replacement			
Employee salaries			
University receives donation to build a football stadium			

Nonoperating: subsidies; contributions to endowments; financing; disposal of capital assets and inventory; investments

Subsidies: goods/services not provided; keeps fees/charges lower than otherwise or are recoverable through fees/charges; all other transfers

Revenue & Expense Classification

Inflow/OutflowH	Operating or Nonoperating	Subsidy?	Noncapital?
Community college leases facilities to NFPs			
Housing authority leases apartments to tenants			
Enterprise fund has a SBITA > 12 months			
Hospital receives dividend payments on stocks in its portfolio			

Major Component Units

Major component units should be reported in basic financial statements, either:

- On the face of the financial statements, if it does not reduce their readability, or
- In combining financial statements, following the fund financial statements

The option to disclose major component units in condensed financial statements in the notes is eliminated

Budgetary Comparisons

Budgetary comparison schedules should be presented as RSI

The option to present as basic financial statements is eliminated

Variance columns are required for:

- Original budget to final budget, and
- Final budget to actual results

Notes to RSI should explain significant variations between (1) original and final budget amounts and (2) final budget and actual amounts

Effective Date and Transition

Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter

- FYEs 6-30-26, 9-30-26, 12-31-26, 3-31-27
- Earlier application is encouraged
- If a primary government implements early, all component units also must implement early

Changes adopted at transition should be reported as a change in accounting principle per Statement 100, including the related display and disclosure requirements

Tentative Implementation Guidance (Q4.16)

- Q—If a primary government is implementing Statement 103 for its fiscal year ended June 30, 2026, and it will include in its financial statements a component unit with a fiscal year-end of December 31, 2025 (in accordance with the provisions in paragraph 59 of Statement No. 14, *The Financial Reporting Entity*), when should the component unit implement Statement 103?
- A—For the purposes of implementing Statement 103, which requires changes to the presentation of certain financial statements, the component unit should implement that Statement in its December 31, 2025 financial statements.

GASB Statement No. 104, *Certain Capital Asset Disclosures*

Effective starting with fiscal years ending June 30, 2026

Why Did the GASB Issue This Statement?

GASB standards are inconsistent with respect to distinguishing financial assets from nonfinancial assets

Statements 87, 94 & 96 require governments to recognize intangible right-to-use assets, which are distinct from the underlying assets, and to disclose them separately from other capital assets

Statement 34 identifies intangibles as a type of capital asset

GASB research found that nonfinancial assets other than tangible capital assets are pervasive among governments and that not all types are equally important to financial statement users

Detail in the Capital Asset Roll-Forward

Intangible right-to-use lease assets, by major class of underlying asset **Already required by Statement 87**

Intangible right-to-use assets recognized by an operator in a PPP, by major class of underlying PPP asset

Intangible right-to-use subscription assets **Already required by Statement 96**

Other intangible assets, by major class of asset

Intangible right-to-use assets should not be disclosed in the same major class as owned assets of that type

Held for Sale

Capital assets should be classified as held for sale if:

- The government has decided to pursue the sale of the asset
- It is probable (i.e., likely to occur) that the sale will be finalized within one year of the financial statement date

Factors to consider when evaluating *probable* include:

- Whether the asset is available for immediate sale in its present condition
- Whether an active program to locate a buyer has been initiated, including putting the asset out for bid
- Market conditions for selling that type of asset
- Regulatory approvals needed to sell the asset

Classification as held for sale should be evaluated for each reporting period

Held for Sale (continued)

Continue to report capital assets held for sale within the appropriate major class, such as in the roll-forward note

Disclose additional information about capital assets held for sale:

- Historical cost and accumulated depreciation/amortization separately
- Separately for governmental and business-type activities
- By major class of asset
- Carrying amount of debt for which capital assets held for sale are pledged as collateral, for each major class of asset

Effective Date & Transition

Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter

- FYEs 6-30-26, 9-30-26, 12-31-26
- Earlier application is encouraged

Transition provisions

- Applied retroactively to all periods presented in the financial statements, if practicable
- Disclose that the Statement was implemented and any financial statement line items that were affected (excluding totals and subtotals)
- If retroactive application is not practicable, disclose the reason

POLLING QUESTION 9

GASB IMPLEMENTATION GUIDES

including

Implementation Guidance Updates 2023-1 and 2025-1 (forthcoming)

CRI CARR RIGGS & INGRAM®

What Are Implementation Guides?

"The GASB has authorized its staff to issue Implementation Guides to provide guidance on the implementation and application of GASB pronouncements. Separate Implementation Guides cover a broad range of topics within the scope of a particular pronouncement or pronouncements. Guidance provided in an Implementation Guide is limited to clarifying, explaining, or elaborating on the standards contained in the pronouncement(s); issues related to specific types of governmental entities affected by the pronouncement(s) also may be addressed."

The standards in Implementation Guides are presented in question-and-answer format, based on specific facts and circumstances

The First Wave of Guides

1991–2014: GASB issued freestanding Guides to Statements 3, 9, 10, 14, 25–27, 31, 34 (x 2), 40, 43 & 45, 44, 53, 67, and 68

2013: GASB issued its first *Comprehensive Implementation Guide* (CIG), compiling all previously issued Guides, and has updated it annually since then

How Guides Were Developed: Pre-2014

Implementation Guides are *staff* documents—meaning, the GASB members vote to *clear* them for issuance rather than voting to issue them

The GASB staff drafted the questions and answers, which were reviewed by an advisory committee of experts appointed by the GASB chair

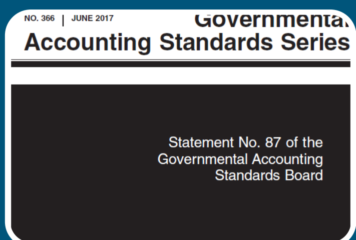
A revised draft was submitted to the Board for its consideration in a public meeting

A final draft was submitted to the Board for its consideration in a public meeting, during which it would vote on whether to clear it

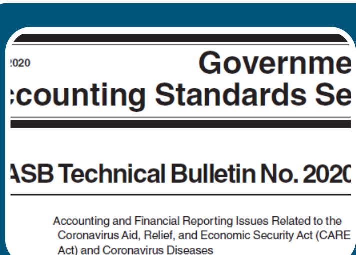
The Revised GAAP Hierarchy

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The sources of authoritative GAAP are categorized in descending order of authority as follows:



Officially established accounting principles—GASB Statements



GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB

Implementation Guides Since June 2015

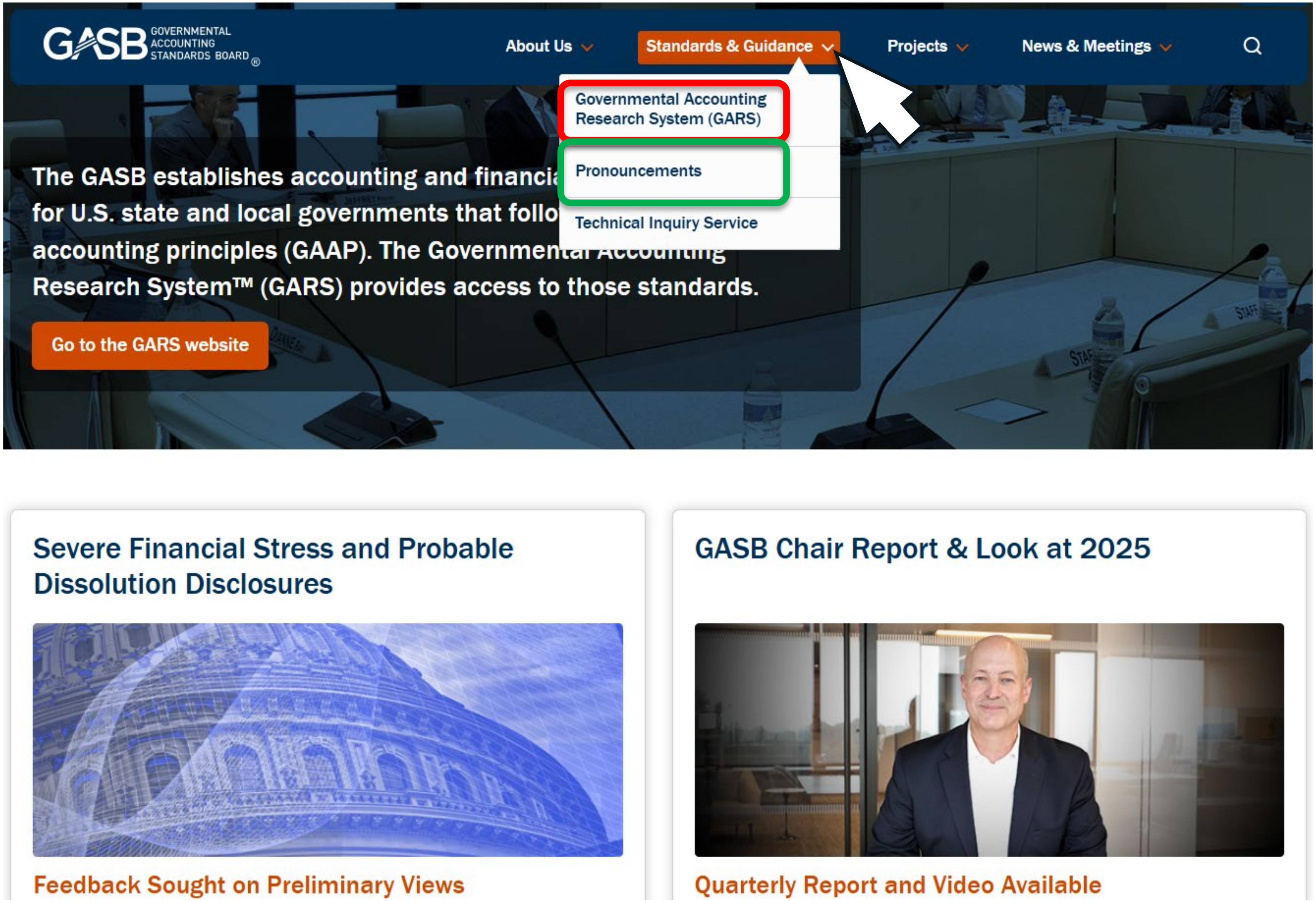
Implementation Guide No. 2015-1

Implementation Guidance Updates in 2016–2021 and 2023

Freestanding Guides to Statements 74, 75, 84, and 87

Annual updates to the Comprehensive Implementation Guide (CIG)

Finding the IGs, IGUs, and CIG



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Implementation Guide No. 2023-1

Implementation Guidance Update—2023

Effective Dates:

- Questions 4.1–4.9 and 5.1 for fiscal years beginning after June 15, 2023, and all reporting periods thereafter
- Question 4.10 simultaneously with the requirements of Statement 100
- Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented

What Does IG 2023-1 Cover?

Leases – 6 new Q&As and a revised Q&A

- Short-term leases
- Lease term
- Lessee recognition and measurement
- Lessor recognition and measurement

SBITAs – 3 new Q&As

Accounting changes – a new Q&A

Question 4.1: Short-Term Leases

- Q—A lease contract states that it will remain in effect for three years unless terminated before then. The contract allows the lessee to terminate the lease for any reason with 60 days' notice and the lessor to terminate the lease with 60 days' notice only if the lessee defaults on payments. Is this a short-term lease?
- A—No. The lessee has an unconditional right to terminate and, therefore, has an option to terminate. The lessor does not have an unconditional right to terminate because the lessor is allowed to terminate the lease only on the condition that the lessee defaults on payments and, therefore, does not have the option to terminate. Accordingly, there are no periods for which both the lessee and the lessor have the option to terminate and, therefore, no cancelable periods to exclude from the maximum possible term, which is three years.

Question 4.2: Short-Term Leases

- Q—A lease has a noncancellable period of 36 months, and the lessee has an option to extend the lease for an additional 12 months. At the commencement of the lease, it is not reasonably certain that the lessee will exercise that option. At the end of the noncancelable period, the lessee exercises the option to extend the lease. Does exercising the option to extend result in a change to the maximum possible term?
- A—No. In accordance with paragraph 16 of Statement No. 87, *Leases,* the maximum possible term at the commencement of the lease includes all options to extend, regardless of their probability of being exercised. At the commencement of the lease, the maximum possible term is 48 months, whereas the lease term is 36 months. When the lessee exercises the option to extend, the lease term is reassessed to be 12 months. However, the maximum possible term remains 48 months.

Question 4.3: Short-Term Leases

- Q—In what circumstances does a lease modification (as described in paragraph 71 of Statement 87) result in a short-term lease?
- A—There are two circumstances in which a lease modification results in a short-term lease:
  a. If the lease was a short-term lease before the modification and the maximum possible term after the modification to extend the lease (reassessed from inception as described in paragraph 12 of Statement No. 99, *Omnibus 2022*) is 12 months or less, then the lease remains a short-term lease
  b. Regardless of whether the lease was a short-term lease before the modification, if the modification meets the criteria in paragraph 72 of Statement 87 to be accounted for as a separate lease and the maximum possible term of that separate lease is 12 months or less, then the modification results in a separate short-term lease

POLLING QUESTION 10

Question 4.4: Lessees

- Q—A government leases a building. The lease term is 10 years. At the commencement of the lease, the government provides the first three payments and recognizes a liability for the present value of the remaining seven payments, which will be paid starting in the fourth year of the lease. Should the government recognize interest expense during each of the first three years of the lease?
- A—Yes. In accordance with paragraph 24 of Statement 87, interest expense represents the amortization of the discount on the lease liability. That discount should be amortized over the entire lease term, including each of the first three years during which the government is not making payments. The interest liability will continue to accrue until the government starts making payments in the fourth year

Question 4.5: Lessees

- Q—A public university enters into a lease of a building in Europe for its study abroad program. The lease requires the university to make payments of 5,000 euros per month. The university prepares its financial statements in U.S. dollars. Because the lease payment is required to be made in euros, the amount of the payment in U.S. dollars is subject to change throughout the lease as exchange rates fluctuate. Are those lease payments variable payments that depend on an index or a rate?
- A—No. The currency in which lease payments are made does not affect whether those payments are considered fixed. As such, because the contract requires a fixed payment amount in euros, the lease payments should be considered fixed payments for the purpose of applying paragraph 21 of Statement 87. The increase or decrease in expected U.S. dollar cash flows is a foreign currency transaction gain or loss, which should be reported in accordance with paragraphs 165–172 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Question 4.6: Lessors

Will be superseded by Q4.4 of IG2025-1

- Q—Paragraph 54 of Statement 87 requires that the deferred inflow of resources related to a lease be recognized as inflows of resources (for example, revenue) over the lease term. If reported as revenue, should a business-type activity or enterprise fund report those inflows of resources as operating revenue?
- A—Paragraph 102 of Statement No. 34, *Basic Financial Statements—*and *Management's Discussion and Analysis—for State and Local Governments*, requires governments to establish a policy that defines operating revenues in a way that is appropriate to the nature of the activity being reported. As discussed in Question 7.73.4 in *Implementation Guide No. 2015-1*, that policy should be consistent with the objective of distinguishing between operating and nonoperating revenues and expenses, which is to provide a reporting format that displays the extent to which an enterprise's operating expenses were covered by revenues generated by its principal ongoing operations. Therefore, whether revenue recognized from the deferred inflow of resources related to a lease is operating revenue or nonoperating revenue depends on (a) the purpose of the lease, (b) the nature of the activity being reported as a business-type activity, or in an enterprise fund, and (c) the government's policy defining operating revenue.

Revised Question 5.1: Lease Term

- Q—A lease contract allows only the lessee to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that the lessee will not terminate the lease. Should the ~~cancellable~~ periods covered by the lessee's option to terminate be excluded from the lease term?
- A—No. Paragraph 12 of Statement 87 requires that periods covered by *either* a lessee or a lessor option to terminate the lease be included in the lease term if it is reasonably certain, based on all relevant factors, that the lessee or lessor will not exercise the option. In determining whether it is reasonably certain that the lessee will not exercise the option to terminate the lease, the lessee (or in the case in which the government is the lessor—the lessor) should assess all factors relevant to the likelihood that the lessee will not exercise the option. Those factors include significant economic disincentives, such as cancellation penalties, as discussed in paragraph 14 of Statement 87. (See also Question 4.29 in Implementation Guide 2019-3.)

Question 4.7: SBITAs with Automatic Renewals

- Q—Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?
- A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.

Question 4.8: Types of SBITAs

- Q—For purposes of determining the applicability of Statement 96, do Software as a Service, Platform as a Service, and Infrastructure as a Service contain a combination of IT software and tangible capital assets?
- A—Yes. Software as a Service, Platform as a Service, and Infrastructure as a Service are three common deployment models of cloud computing arrangements. Notwithstanding the labels of those arrangements, each deployment model contains IT software used in combination with tangible capital assets. To further assess the applicability of Statement 96, the substance of the arrangement should be evaluated in accordance with all aspects of paragraph 6 of that Statement to determine whether the arrangement meets the definition of a subscription-based information technology arrangement (SBITA).

Question 4.9: Subscription Term

- Q—A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?
- A—Although the length of the contract is six years, the subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

Question 4.10: Accounting Changes

- Q—Upon completion of a capital project during the year, a government closes out a major capital projects fund and moves the remaining resources to the general fund. Does this circumstance constitute a change to or within the financial reporting entity?
- A—No. Even though the capital projects fund will no longer be included in the government's financial reports in future periods (that is, the fund will be removed for financial reporting purposes), it does not constitute a change to or within the financial reporting entity in accordance with paragraph 9a of Statement 100 because, in this case, the removal of the fund does not result from a movement of continuing operations. Instead, that movement of remaining resources to the general fund should be reported as interfund activity in accordance with paragraph 112 of Statement 34, as amended.

POLLING QUESTION 11

Forthcoming Implementation Guide No. 2025-1

Implementation Guidance Update—2025

Expected June 2025

Topics Covered

New Q&As	Cash flows reporting
	Financial reporting model
	Leases
	Conduit debt
	Accounting changes and error corrections
	Compensated absences
Revisions to existing Q&As	Financial reporting model
	Governmental fund type definitions

Tentative Q4.1: Cash Flows

- Q—If a transaction is reported as part of operating income in the statement of revenues, expenses, and changes in fund net position and in a cash flow statement category other than operating activities, what additional information should be presented?
- A—The transaction also should be presented as a reconciling item in the reconciliation of operating income to net cash flow from operating activities. For example, in circumstances in which a finance authority reports interest income as a component of operating income and reports the cash received from interest income in the investing activities category, the reconciliation of operating income to net cash flow from operating activities should begin with reported operating income, and the interest income amount should be deducted as a reconciling adjustment to operating income, similar to depreciation. (See also Question 2.25.1 in Implementation Guide 2015-1.)

Tentative Q4.8: Lease Term

- Q—A government leases a vehicle. The contract states that the lease will end after 3 years or 60,000 miles, whichever comes first. There are no options to extend or terminate the lease. What is the lease term?
- A—The lease term is three years, which is the noncancellable period. Reaching a certain number of miles is an event specified in the lease contract that requires termination of the lease. If that occurs before the end of the noncancellable period, paragraph 15c of Statement 87 requires reassessment of the lease term at that time.

Tentative Q4.9: Lease Modifications

- Q—In circumstances in which a government remeasures a lease liability because of a modification in accordance with paragraph 73 of Statement 87, should the government remeasure from the commencement of the lease or from the date of the modification?
- A—A remeasurement due to the modification of a lease should be calculated from the date of the modification.

Tentative Q4.10: Conduit Debt

- Q—A component unit issues debt on behalf of its primary government (third-party obligor). One of the characteristics of conduit debt in paragraph 6 of Statement 91 is that the issuer and the third-party obligor are not within the same financial reporting entity. For the purposes of the component unit's stand-alone financial statements, is that characteristic met?
- A—No. The characteristic in paragraph 6b of Statement 91 does not refer to the financial reporting entity covered by a set of financial statements. Instead, it refers to the relationship between the issuer and the third-party obligor. In this case, because the issuer is a component unit of the third-party obligor, the debt does not meet the characteristic of conduit debt in paragraph 6b of Statement 91. Therefore, the component unit should not report the debt as conduit debt in its stand-alone financial statements. Rather, the component unit should apply the provisions related to long-term debt.

Tentative Q4.11: Accounting Changes

- Q—Is a change in a government's capitalization threshold a change in accounting principle as defined in Statement 100?
- A—No. A capitalization threshold is the application of materiality to a specific asset class, not an accounting principle. Therefore, the requirements of Statement 100 for a change in accounting principle, including the requirement to restate beginning balances, as appropriate, do not apply to that change.

Tentative Q4.12: Accounting Changes

- Q—Can an individual adjustment to or restatement of beginning net position, fund balance, or fund net position be displayed separately from the remaining aggregate of adjustments to or restatements of those beginning balances?
- A—No. Paragraph 31 of Statement 100 requires display of the aggregate of all adjustments and restatements. Accordingly, unless each accounting change and each error correction is separately displayed in the financial statements in accordance with the exception permitted by paragraph 32 of Statement 100 (in addition to the aggregate amount as required by paragraph 31), a single line item presenting the sum of all adjustments to and restatements of beginning balances for each reporting unit should be displayed.

POLLING QUESTION 12

Tentative Q4.13: Ghost Columns

- Q—How should a change in a fund's presentation from major to nonmajor be displayed in the financial statements?
- A—Paragraph 31 of Statement 100 requires that the aggregate adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed separately by reporting unit. As a result, a column should continue to be presented in the statement of revenues, expenditures, and changes in fund balances or the statement of revenues, expenses, and changes in fund net position, as applicable, that displays (a) the fund's beginning balance as previously reported in the major column and (b) the adjustment to that balance, even though that column does not present activity for the reporting period. Correspondingly, in the statement of revenues, expenditures, and changes in fund balances or the statement of revenues, expenses, and changes in fund net position, as applicable, the column that presents nonmajor funds in the aggregate also should display the adjustment to its beginning balance.

Tentative Q4.14: Ghost Columns (cont'd)

- Q—Would the answer be different if the major fund no longer exists as a result of the movement of continuing operations, for example, a major enterprise fund will be reported as part of the general fund (instead of as a result of a change in fund presentation)?
- A—No. Consistent with the answer to the preceding question, in the example in this question, a column should continue to be presented in the statement of revenues, expenses, and changes in fund net position that displays (a) the enterprise fund's beginning balance as previously reported in the major column and (b) the adjustment to that balance, even though that column does not present activity for the reporting period. Correspondingly, in the statement of revenues, expenditures, and changes in fund balances, the column that presents the general fund also should display the adjustment to its beginning balance.

Ghost Column

	General	Community Redevelopment	Previously major Federal Covid	Nonmajor	Total
Revenues					
Total revenues	$ 18,560,441	$ 727,566		$ 13,194	$ 19,301,201
Expenditures					
Total expenditures	17,645,931	1,045,043		1,433,852	20,124,826
Excess (deficiency) of revenues over (under) expenditures	914,510	(317,477)		(1,420,658)	(823,625)
Other Financing Sources (Uses)					
Total other financing sources (uses)	1,557,072	900,396		-	2,457,468
Net change in fund balances	2,471,582	582,919		(1,420,658)	1,633,843
Fund balances—beginning, as previously reported	11,850,027	1,319,778	$ 1,481,844	59,361	14,711,010
Adjustment—change from major to nonmajor fund			(1,481,844)	1,481,844	
Fund balances—beginning, as adjusted	12,048,679	1,319,778		1,541,205	14,909,662
Fund balances—ending	$ 14,520,261	$ 1,902,697		$ 120,547	$ 16,344,853

Ghost Cell

Previously nonmajor

	General	Housing	Bridges & Highways	Nonmajor	Total
Revenues					
Total revenues	$ 831,424,333	$ 178,323,099	$ 3,983,245	$ 194,003,330	$ 1,207,734,007
Expenditures					
Total expenditures	772,513,099	262,402,384	160,872,220	188,433,852	1,384,221,555
Excess (deficiency) of revenues over (under) expenditures	58,911,234	(84,079,285)	(156,888,975)	5,569,478	(176,487,548)
Other Financing Sources (Uses)					
Total other financing sources (uses)	(54,034,009)	95,035,333	171,993,255	10,234,567	223,229,146
Net change in fund balances	4,877,225	10,956,048	15,104,280	15,804,045	46,741,598
Fund balances—beginning, as previously reported	441,843,898	153,738,902		254,098,345	849,681,145
Adjustment—change from nonmajor to major fund			23,142,322	(23,142,322)	-
Fund balances—beginning, as adjusted	441,843,898	153,738,902	23,142,322	230,956,023	849,681,145
Fund balances—ending	$ 446,721,123	$ 164,694,950	$ 38,246,602	$ 246,760,068	$ 896,422,743

Tentative Q5.1: Financial Reporting Model

- Q—Is title to an asset always equivalent to ownership?
- A—For the purposes of Statement 34, as amended, ownership is considered a collection of rights to “use and enjoy” property, including the right to transmit it to others. For assets held for public benefit, such as roads, the right to use and enjoy property includes the right to determine how the property is used. All rights may not be vested in a single entity. The term *title* is used to refer to the right to or ownership of an asset and is also used to refer to the evidence of such ownership. Title may be evidence of legal ownership; however, that ownership may be held for the entity's own benefit or for the benefit of another entity. Generally, holding title to an asset equates to ownership, and the entity that holds title to an asset should report the asset in its financial statements. However, the facts and circumstances of the situation should be considered. There may be instances in which title is held by one entity, yet some rights of ownership are held by another entity. For example, in certain arrangements associated with conduit debt, the issuer of that conduit debt does not recognize a capital asset even though it holds title from the beginning of the arrangement.

Tentative Q5.2: Special Revenue Funds

- Q—Are governments required to use special revenue funds to report restricted or committed revenue sources?
- A—No. Special revenue funds are not required, except to report the general fund of a blended component unit or to report restricted resources that are legally mandated to be included in a fund that meets the criteria to be reported as a special revenue fund in paragraphs 30 and 31 of Statement 54, as amended.

Tentative Supersession of Q2.18.2

To be superseded

Q—Should all items reported as part of operating income be included in the operating activities category?

A—Not necessarily. Classification of a transaction for operating statement purposes should not dictate its classification in the statement of cash flows. As discussed in Question 2.18.1, the transaction should be evaluated first according to the definitions of the capital and related financing, noncapital financing, and investing activities categories.

Paragraph 16 of Statement 9 states that "cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income." It was believed that most nonoperating income items would be classified in other than the operating activities category. The reconciliation of operating income to cash flows from operating activities would have fewer reconciling items if the operating activities category were highly correlated to operating income. However, paragraph 16 *definitively* states that the operating activities category includes "all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities." Therefore, operating income should not be considered a criterion for classifying cash flows.

If a transaction is included in operating income and its resulting cash flow meets the definition of a category other than operating activities, the item should be presented as a reconciling item in the reconciliation of operating income to net cash flow from operating activities. For example, if a finance authority reports interest income as a component of operating income, the cash received from interest income should be presented in the investing activities category. The reconciliation of operating income to net cash flow from operating activities should begin with reported operating income, and the interest income amount should be deducted as a reconciling adjustment to operating income, similar to depreciation. (See Questions 7.73.1–7.73.5.)

Effective Dates and Transition

Q&A	Topic	Effective Date
4.16	Component unit implementation of Statement 103	Upon issuance of the IG
4.1 – 4.15, 5.1, 5.2, supersession of 2.18.2	All other topics	Fiscal years beginning after June 15, 2025, and all reporting periods thereafter

Q&A	Topic	Transition
4.1 – 4.10, 4.15, 5.1, 5.2	Cash flows, financial reporting model, leases, conduit debt, compensated absences, special revenue funds	Retroactively as a change in accounting principle per Statement 100
4.11 – 4.14	Accounting changes and error corrections	Prospectively

POLLING QUESTION 13

Forthcoming Statement, *Subsequent Events*

Expected December 2025

Why Did the GASB Propose This Statement?

The underlying standards are over 50 years old and were brought into GASB standards through Statement 56 in 2009, but without reexamination

Research found significant diversity in practice, including governments (1) recognizing or disclosing as subsequent events items that did not meet the definition and/or (2) failing to recognize or disclose events that occurred that meet the definition

Some stakeholders found the descriptions of recognized and nonrecognized events difficult to understand

In practice, governments were inconsistent in what information they disclosed about subsequent events

Proposed Definition of Subsequent Events

Subsequent events are transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued

The date the financial statements are available to be issued is the date at which (a) the financial statements are complete in a form and format that complies with GAAP and (b) all approvals necessary for issuance have been obtained

Proposed Definition: Recognized Events

A subsequent event that (a) is indicative of conditions existing at the financial statement date and (b) informs the inputs to an accounting estimate measured as of the financial statement date

The effects of recognized events should be incorporated into the measurement of accounting estimates reported as of the financial statement date

Proposed Definition: Nonrecognized Events

A subsequent event that has a significant effect (favorable or unfavorable) on the basic financial statements in the reporting period in which the event occurs and is one of the following:

- A debt-related transaction
- A government combination or a disposal of government operations
- A change to the legally separate entities that comprise the financial reporting entity
- The application of an enacted tax rate that is different from the tax rate previously in effect
- A transaction or other event that is of such a nature that a description of it and an estimate of its effect on the basic financial statements are essential to financial statement users

Proposed Disclosures

For each nonrecognized event, disclose:

- A description of the nonrecognized event
- An estimate of its effect on the basic financial statements for the reporting period in which it occurs, or the reason why an estimate cannot be made

Disclosures should correspond to the reporting units in the financial statements

Information that is the same for multiple reporting units should be combined in a manner that avoids unnecessary duplication

Proposed Effective Date & Transition

Effective for subsequent events associated with fiscal years beginning after June 15, 2026, and all reporting periods thereafter

- FYEs 6-30-27, 9-30-27, 12-31-27
- Earlier application is encouraged

Should be applied prospectively

What's Next?

Redeliberations started in April

Final Statement expected December 2025

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