Understanding GASB Implementation Guide No. 2025-1

WHAT STATE AND LOCAL GOVERNMENT FINANCIAL LEADERS NEED TO KNOW

On **June 23, 2025, the Governmental Accounting Standards Board (GASB) released GASB Implementation Guide No. 2025-1**, *Implementation Guidance Update–2025* (IG 2025-1), providing clarity on a range of accounting issues for state and local governments. With sixteen new questions and two amendments to previous guidance, IG 2025-1 addresses practical implementation challenges and helps with consistent application of GASB standards. This article summarizes the key topics, provides clear explanations, and includes practical examples to help government professionals understand the impact of these updates.

History and Background

THE ROLE OF GASB

The GASB was established in 1984 as an independent, private-sector organization to develop accounting and financial reporting standards for U.S. state and local governments. GASB's mission is to promote clear, consistent, and comparable financial reporting, thereby increasing transparency and accountability for public sector entities.

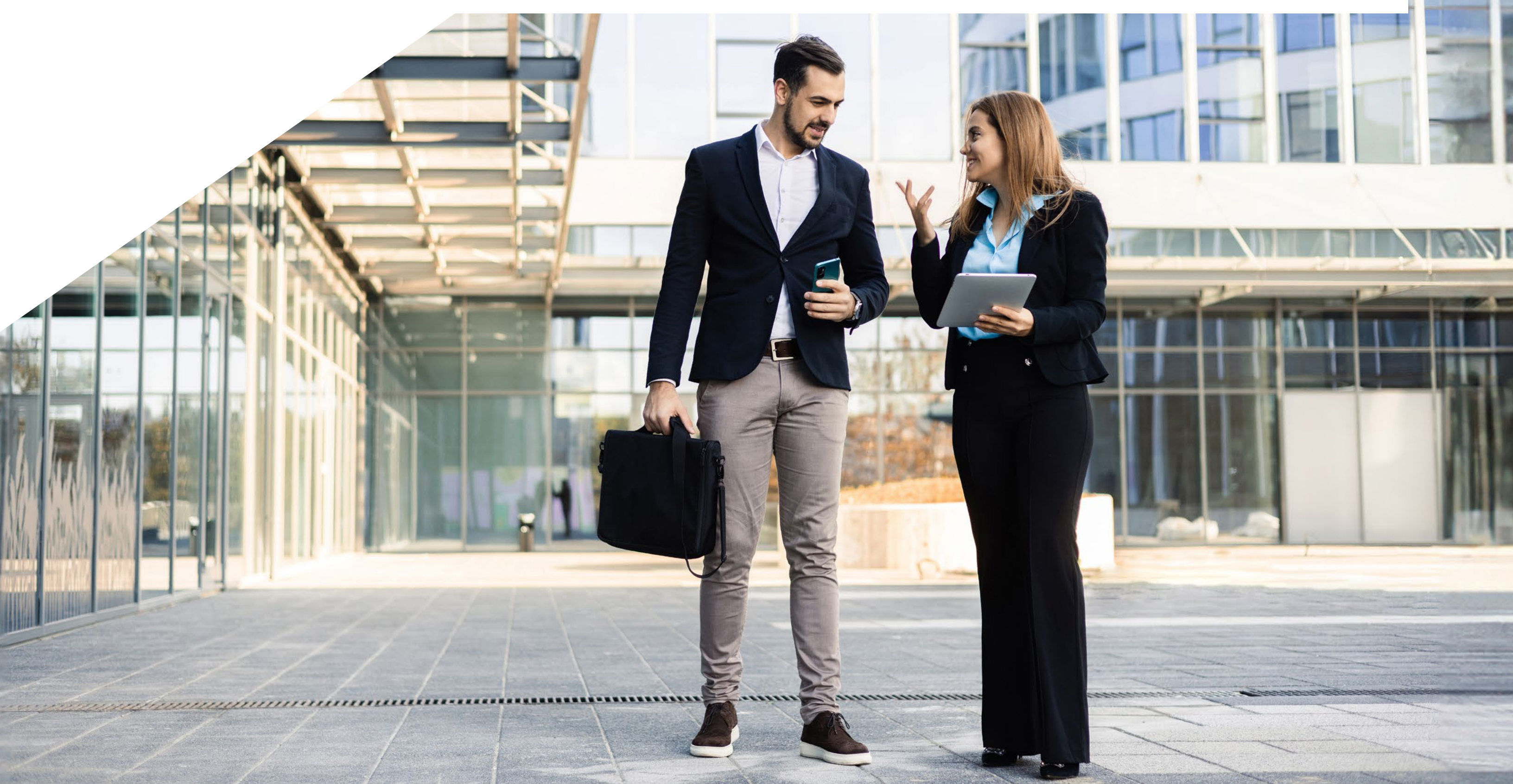
WHY IMPLEMENTATION GUIDES?

The GASB issues implementation guides to help governments apply its standards consistently and correctly. These guides are developed through a public due process, including exposure drafts and stakeholder feedback, to address real-world questions that arise as governments implement new or revised standards. Implementation guides are considered Category B authoritative guidance under the GAAP hierarchy, meaning they provide essential clarification when the primary (Category A) standards do not address a specific issue.

EVOLUTION OF IMPLEMENTATION GUIDANCE

Over the years, the GASB has released multiple implementation guides to address evolving accounting issues, including those related to pensions, leases, financial reporting models, amongst others. Each guide is intended to supplement, not replace, the underlying standards. For example, the implementation guide for leases (IG 2019-3) provided critical assistance for applying complex new guidance related to leases under GASB 87.

IG 2025-1 continues this tradition by updating and expanding on previous guidance, reflecting new standards like GASB 100 (Accounting Changes and Error Corrections), GASB 101 (Compensated Absences), and GASB 103 (Financial Reporting Model Improvements). The guide also amends earlier Q&As for alignment with current standards and best practices.



Key Topics Covered in the Implementation Guide

CASH FLOWS REPORTING

Key Points

When a transaction is reported as part of operating income in the operating statement but is classified in a different category on the statement of cash flows, it must also be presented as a reconciling item in the reconciliation of operating income to net cash flow from operating activities.

Example

A government-owned utility receives a grant that is included in operating income but is classified as a non-operating cash inflow on the cash flow statement. The grant must be shown as a reconciling item in the cash flow reconciliation.

Why It Matters

This clarification helps prevent double-counting or omission of significant transactions in the reconciliation process, supporting more accurate and transparent cash flow reporting.

OPERATING AND NONOPERATING REVENUES AND EXPENSES

Key Points

Interest revenue earned by a proprietary fund whose main activity is lending is considered operating revenue.

- Interest expense from borrowing to fund operations is considered nonoperating expense.
- Interest revenue from leases is not operating revenue; it is related to financing, not operations.
- Amortization of deferred inflows of resources from leases is not related to the financing of the lease and should be reported as operating revenue.

Example

A city's revolving loan fund earns interest from loans to local businesses. This interest is operating revenue. If the fund borrows money to make those loans, the interest paid on those borrowings is a nonoperating expense. If the city leases property and recognizes interest revenue from the lease, that interest is nonoperating revenue, and the amortization of deferred inflows of resources from the lease is operating revenue.

Why It Matters

Proper classification of revenues and expenses is essential for accurately reflecting the results of operations and for compliance with GASB 103, which redefines operating and nonoperating activities for proprietary funds.

LEASES

Key Points

- If a lease ends after a fixed period or upon a specific event (whichever comes first), the lease term is the fixed period of time which is the noncancellable period.
- If a specific event occurs prior to the end of the lease term, the lease term should be remeasured.
- When a lease is modified, remeasurement of the lease liability should be calculated from the modification date, not the original start date.

Example

A school district leases equipment for five years or until a grant expires. The five-year period is the lease term unless the grant ends earlier, in which case the lease is remeasured. If the lease is modified in year three, the liability is remeasured from the modification date.

Why It Matters

These clarifications help governments apply the complex lease accounting model under GASB 87, reducing the risk of misstatement and supporting comparability across entities.

CONDUIT DEBT OBLIGATIONS

Key Points

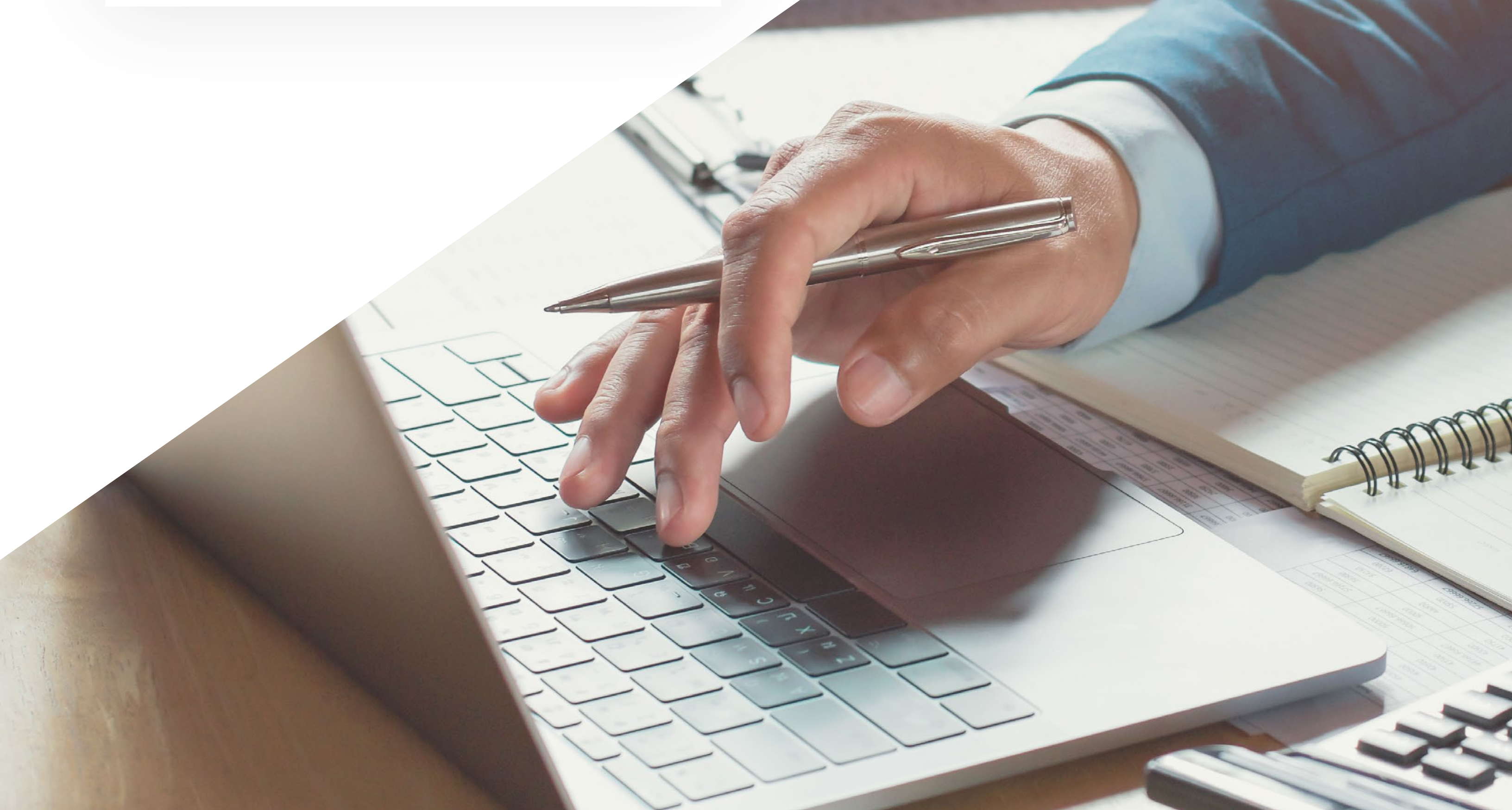
- If a component unit issues debt on behalf of its primary government, they are considered within the same reporting entity.
- Therefore, the debt is not conduit debt.

Example

A city's housing authority (component unit) issues bonds on behalf of the city (primary government). Because both are within the same reporting entity, the bonds are not conduit debt.

Why It Matters

This distinction affects how debt is reported and disclosed, impacting both the primary government and its component units and establishing proper classification in the financial statements.



ACCOUNTING CHANGES AND ERROR CORRECTIONS

Key Points

- Changing the threshold for capitalizing assets is not a change in accounting principle.
- Adjustments to beginning balances should be shown in aggregate unless each accounting change or error correction is separately displayed by reporting unit.
- If a fund's presentation changes from major to nonmajor, a separate column should be presented for the prior major fund, displaying only the opening balance and the adjustment to move that balance in the applicable resource flows statement.

Example

A special revenue fund that was reported as major in the prior year is not a major fund in the current year. In the current year statement of revenues, expenditures, and changes in fund balance, a separate column for the special revenue fund should be presented displaying only opening fund balance and an adjustment to zero out the balance, with a corresponding adjustment to opening fund balance in the nonmajor funds column.

Why It Matters

These details help governments implement GASB 100 correctly, making sure that changes and corrections are reported transparently and consistently.

COMPENSATED ABSENCES

Key Points

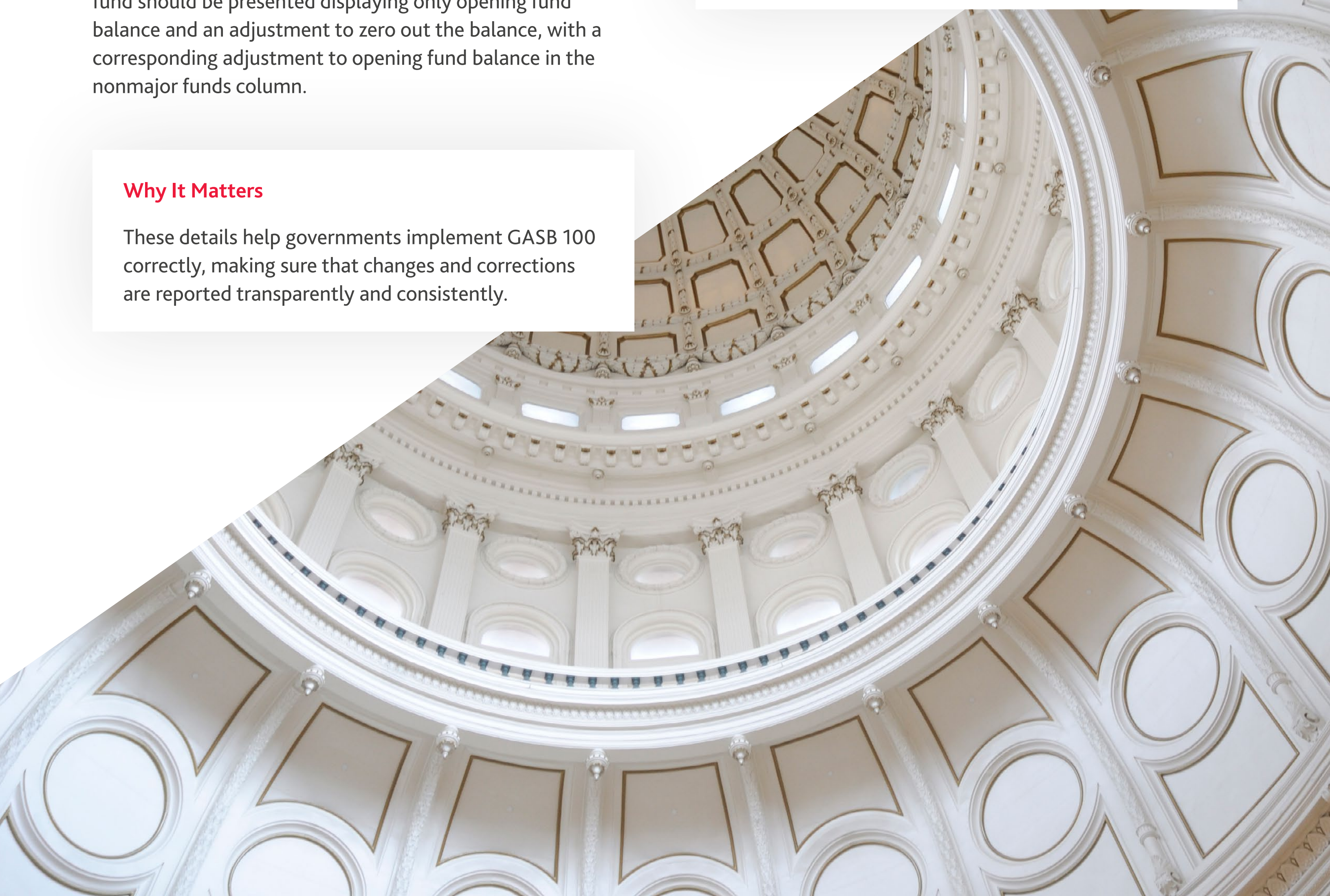
- Known future pay rates should not be used to calculate the compensated absences liability.
- Recognize pay rate changes only in the period they occur.

Example

An employee's pay rate is to increase from $25 per hour to $28 per hour effective the first day of the subsequent year. In calculating the compensated absences liability as of year-end for the current year, the $25 per hour rate should be used.

Why It Matters

This prevents overstatement or understatement of liabilities, aligning with GASB 101's focus on accurate measurement and making sure liabilities reflect current obligations.



OTHER MATTERS

Key Points

- Subsidies are classified as noncapital if the provider does not limit the use of resources or limits the use to something other than capital asset acquisition.
- Payments in Lieu of Taxes may be subsidies if used to support general government activities, but not if the payment is for goods/services.
- Third-party insurance payments to government healthcare providers are not subsidies due to the contractual relationship between the insured individual and the third-party insurer.
- If a primary government implements GASB 103 for the year ending June 30, 2026, a component unit with a December 31 year-end should implement in its December 31, 2025, statements.
- Title to an asset does not always equal ownership for the purposes of GASB 34, as ownership is a collection of rights to "use and enjoy" property. There may be instances in which title is held by one entity, yet some rights to ownership are held by another. The facts and circumstances of the situation should be considered.
- Special revenue funds are not required to be used to report restricted or committed revenues. Special revenue funds are only required to be used to report the general fund of a blended component or report restricted resources legally mandated to be included in a fund meeting the requirements of a special revenue fund.

Why It Matters

These clarifications allow for proper classification and reporting of subsidies, PILOTs, and other transactions, supporting compliance and transparency in financial statements.

EFFECTIVE DATE AND TRANSITION

- Question 4.16 is effective upon issuance.
- All other questions are effective for fiscal years beginning after June 15, 2025. Early adoption is encouraged if the relevant pronouncement is already implemented.
- GASB 100-related questionsare applied prospectively, others retroactively.
- Changes related to the adoption of guidance in the IG should be reported as a change in accounting principle.

How BDO Can Help

IG 2025-1 provides important clarifications for state and local governments. Finance leaders should review the updates, assess their current accounting practices, and prepare for implementation to support compliance and consistency in financial reporting.

BDO State and Local Government practice helps governments and communities thrive. Contact us to learn how we can support you in preparing for the implementation of IG 2025-1.

For more information on our service offerings, visit **bdo.com/governments**.

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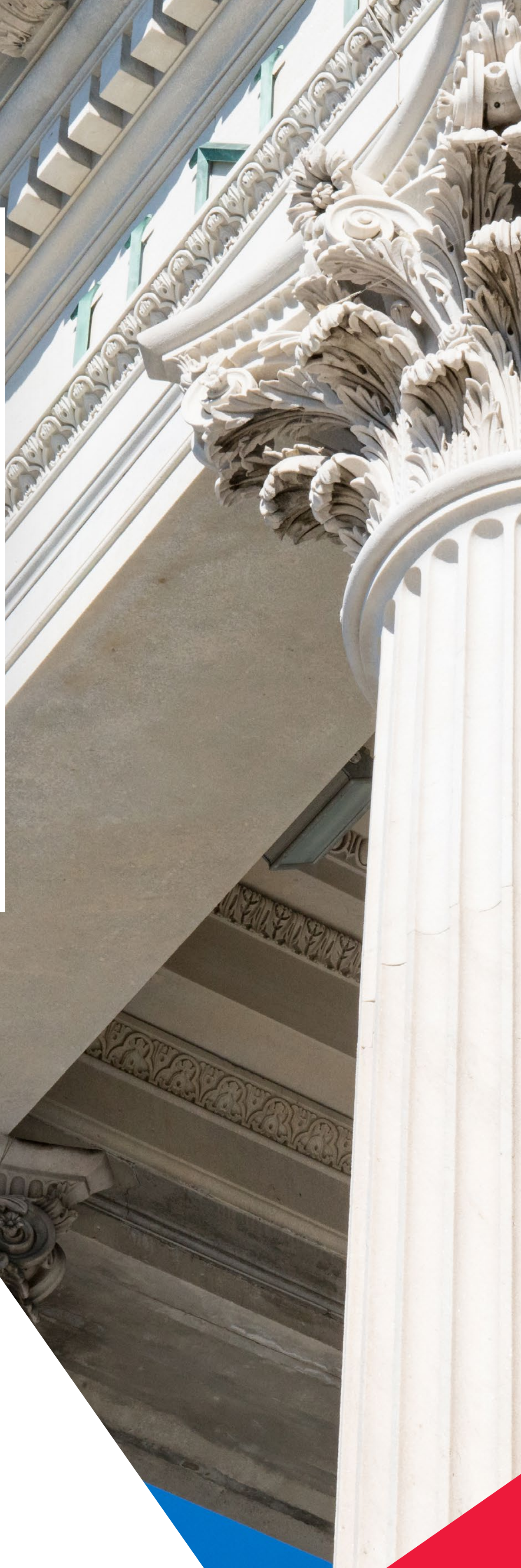

Related Reference Material

1. Governmental Accounting Standards Board. (2025). GASB Implementation Guide No. 2025-1, Implementation Guidance Update–2025. Norwalk, CT: GASB.
2. Governmental Accounting Standards Board. (2022). GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Norwalk, CT: GASB.
3. Governmental Accounting Standards Board. (2022). GASB Statement No. 100, Accounting Changes and Error Corrections. Norwalk, CT: GASB,
4. Governmental Accounting Standards Board. (2023). GASB Statement No. 101, Compensated Absences. Norwalk, CT: GASB.
5. Governmental Accounting Standards Board. (2019). GASB Statement No. 87, Leases. Norwalk, CT: GASB.
6. Governmental Accounting Standards Board. (2022). GASB Statement No. 96, Subscription-Based Information Technology Arrangements. Norwalk, CT: GASB.

Note: This article is based on information available as of June 2025. For the most current guidance, consult the official GASB website or your professional advisor.