

# Technical Line

GASB – final guidance

## A closer look at the GASB's revised financial reporting model requirements

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### What you need to know

- ▶ The GASB's revised financial reporting standard, effective for fiscal years beginning after 15 June 2025, clarifies MD&A requirements and emphasizes that governments need to explain in detail the reasons for any changes in balances and results of operations from the prior year.
- ▶ Governments need to present MD&A as required supplementary information and provide information on currently known facts, decisions or conditions expected to have a significant effect on financial results.
- ▶ Governments providing services to the public in exchange for a fee need to use specific definitions of operating and nonoperating revenues and expenses when presenting the financial statements of proprietary funds.
- ▶ Governments need to determine whether a transaction meets the GASB's definition of a subsidy, which may require significant judgment.
- ▶ Governments need to evaluate whether they are subject to the standard's other provisions (e.g., unusual or infrequent transactions, presentation of major discretely presented component units). They also need to consider the impact of the guidance on the statistical section of their financial statements.

### Overview

The Governmental Accounting Standards Board (GASB ) **Statement No. 103, *Financial Reporting Model Improvements*** (GASB 103 or the standard), is intended to improve the effectiveness of the financial reporting model in providing information that is essential for

decision-making and evaluating a government's accountability. The key areas of the model that are impacted include:

- ▶ Management's discussion and analysis (MD&A)
- ▶ Unusual or infrequent items
- ▶ Presentation of the proprietary fund statement of revenues, expenses and changes in fund net position
- ▶ Related financial trends information in the statistical section
- ▶ Information about major component units in basic financial statements

The guidance applies to all state and local governments. Certain provisions are particularly relevant to special purpose governments involved in business-type activities (BTA governments) that prepare standalone financial statements. This publication discusses considerations relevant to those governments that measure, recognize and report transactions and balances using proprietary fund accounting and usually present a single enterprise fund. The accounting and reporting for these governments is similar to that used for the private sector.

Preparers should consider using the MD&A illustration in the standard as a template when providing the expanded information.

## Key considerations

### Management's discussion and analysis

The standard clarifies that the MD&A is intended to provide context on the basic financial statements by focusing on topics in these five sections: (1) overview of the financial statements, (2) financial summary, (3) detailed analyses, (4) significant capital asset and long-term financing activity, and (5) currently known facts, decisions or conditions. The standard aims to reduce boilerplate language, prevent repetition and emphasize explanations that are most relevant to the information in the financial statements. Preparers may include information that does not fall under the topics in these sections elsewhere, such as in the letter of transmittal or other forms of supplementary information.

### Detailed analyses

To improve the quality and usefulness of the MD&A, preparers may use the MD&A illustration in Appendix C of the standard as a template to make sure information directly pertaining to contributing factors that affect operating results is included, such as:

- ▶ The amounts or percentages of significant changes
- ▶ An explanation regarding why those changes from the prior year occurred and an indication of the magnitude of the changes
- ▶ Facts, decisions or conditions that a user might not be aware of with the understanding that not all financial statement users may be from the government's geographical area
- ▶ A discussion of significant policy changes (e.g., tax rates, fees, hiring freeze)
- ▶ Important economic factors that significantly affect operations, such as the loss of a significant customer for a BTA

Preparers should not duplicate information located in other areas (e.g., changes in capital assets or long-term financing activities should refer to the separate section in the MD&A).

Explanations should include the cause, timing and impact of the changes on current operations to provide additional context for the financial statement users' analysis.

**Illustration 1 – Detailed analysis – Hospital****Example of an explanation that lacks sufficient detail:**

*The Hospital's net patient revenue increased by \$50 million or 9% when comparing 20X5 to 20X6.*

**Example of an explanation with a detailed analysis:**

*Effective 1 July 20x5, the State increased its portion of the Medicaid payor rates by 3%. Additionally, the Hospital experienced a 5% increase in outpatient activity. As a result, the Hospital's net patient revenue increased by \$50 million, or 9%, in 20X6 from 20X5.*

The second example provides details on (1) who enacted the change, (2) how the change was enacted and (3) what was the effect of the change. This helps the user understand what drove the net patient revenue increase and whether the increase is recurring or nonrecurring.

**Illustration 2 – Detailed analysis – Housing authority****Example of an explanation that lacks sufficient detail:**

*Net mortgage loans receivable decreased by 5%, or \$50 million, in 20X6 from 20X5.*

**Example of an explanation with a detailed analysis:**

*Net mortgage loans receivables decreased in 20X6 by 5% for a reduction of \$50 million from 20X5, primarily as a result of a weaker mortgage lending market driven by reduced inventory of affordable homes and a corresponding reduction in mortgage loan originations during the current year.*

The second example provides details on the economic factors impacting the decrease. It gives financial statement users additional information about the geographic housing market conditions and the related implications to the housing authority.

**Currently known facts, decisions or conditions**

The standard requires preparers to include a section in MD&A to describe currently known facts, decisions and conditions that management expects to have a significant effect on the government's financial position or result in significant differences from current period results of operations. This requirement is more enhanceive than the subsequent event disclosure requirements.

The standard provides a list of examples of information to include in the section. For business-type activities, examples may include reduced Medicaid reimbursement rates, new federal healthcare regulations or approval of a major infrastructure grant. For governmental financing authorities, examples may involve changes in bond ratings, legislative amendments affecting funding sources or significant upcoming debt issuances.

**Presentation of the proprietary fund statement of revenues, expenses and changes in fund net position**

BTA governments provide services to the public in exchange for a fee and are frequently special-purpose governments. Examples include governmental hospitals, universities, housing finance authorities and utilities. BTA entities often receive additional support from sources other than the fees they receive for services to the public through multiple types of revenue streams, such as grants, endowments or appropriations.

BTA governments historically presented operating and nonoperating revenues and expenses separately in the statement of revenues, expenses and changes in fund net position (SRECNP). This format helps financial statement users assess whether operating revenues cover operating costs and provides key indicators for evaluating management performance similar to the private sector.

#### ***New line items and presentation order***

GASB 103 provides for new line items on the SRECNP and changes the presentation of the SCRECNP. Operating and nonoperating revenues and expenses are now defined, improving the comparability among proprietary funds, and giving financial statement users a clearer understanding of operating and nonoperating revenues and expenses.

### **How we see it**

We recommend governments use the illustrative proprietary fund financial report presentation and example formats in GASB 103 when preparing financial reports.

#### ***Definitions of operating and nonoperating revenues and expenses***

GASB 103 distinguishes operating revenues and expenses from nonoperating items, such as subsidies, financing-related transactions, and investment income and expense. This distinction is designed to enhance comparability among BTA governments and clarify whether activities are self-sustaining or dependent on external support.

This is a significant change from the previous guidance, under which governments established policies that defined operating revenues and expenses. That guidance had guardrails in place that directed governments to consider (1) operating revenues and expenses based on what was “appropriate to the nature of the activity being reported,” and (2) how transactions were categorized in the statement of cash flows. This led to diversity in practice in how items were classified between similar entities.

GASB 103 provides the following definition:

Operating revenues and expenses are revenues and expenses other than nonoperating revenues and expenses. 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
- (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.<sup>1</sup>

Previously, a BTA government could conclude that a revenue and an expense associated with the same source for a transaction were both operating activities because under the government’s policy the activities were associated with its principal operations. For example, assume a housing finance authority issues bonds to fund first-time home loans. The bond is

the source of funding, and the money received from the issuance is used to provide loans to first-time homeowners. Accordingly, the housing finance authority could establish a policy under which the issuance of the bonds is part of its principal operations and the interest expense associated with the bonds is an operating expense.

While GASB 103 also places emphasis on principal ongoing operations, it leaves no room for interpretation with respect to the interest expenses associated with bonds issued to fund the first-time home loans, as they are considered a financing activity and nonoperating expense.

### How we see it

Governments may need to reclassify activities that were previously considered operating or nonoperating. For example, entities that were presenting interest expense as an operating expense for bond issuance may need to reclassify the interest expense to nonoperating expense.

Under GASB 103, operating revenues and operating expenses are presented first on the SRECNP to reflect the proprietary fund's core ongoing activities. Nonoperating revenues and expenses, such as subsidies received or provided, contributions to endowments, and proceeds from the disposal of capital assets, are reported separately. The net position is then adjusted by these nonoperating items, providing users with a clearer understanding of how much of the fund's activities are supported by its own operations rather than outside sources. This approach promotes transparency and helps financial statement users assess the fund's financial sustainability.

#### *Definition of subsidies*

The new definition and reporting of subsidies will assist financial statement users in assessing whether a proprietary fund's activities are sustained internally through the services they provide or outside sources are essentially subsidizing the BTA government.

GASB 103 defines subsidies as:

- ▶ 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
- ▶ 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
- ▶ All other transfers<sup>2</sup>

Judgment may be needed to evaluate whether a resource provided by or to another party is a subsidy. This requires governments to carefully assess and document whether a transaction qualifies as a subsidy. Management's conclusion determines the classification of the activity on the SRECNP and can also potentially impact the recognition and timing of the transaction.

### How we see it

Determining whether a revenue source helps keep proprietary fund fees low or whether an expense is recoverable under current or future pricing policies may require judgment.

Management should assess the impact of GASB 103 on the SRECNP and monitor the GASB's website for developments.

Governments may need to apply judgment to evaluate whether a resource provided by or to another party is a subsidy.

## Unusual or infrequent items

Under GASB 103, preparers are no longer required to assess whether items are either unusual in nature or infrequent (or both) or whether they were within the management’s control. The new standard requires all unusual or infrequent items to be presented (1) separately as the line item in the financial statements and (2) on a gross basis, regardless of whether the item was within control of management. Information on whether an item is within the control of management should be conveyed through a disclosure in notes to financial statements.

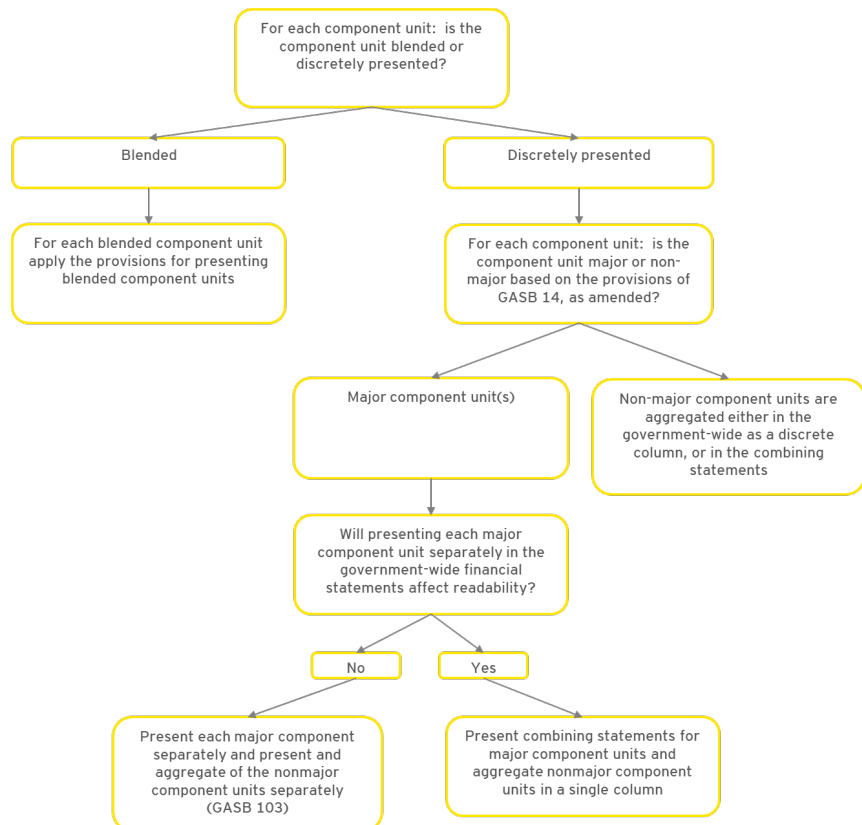
## Major discretely presented component units

GASB 103 addresses the presentation of the major discretely presented component units in the financial statements. The standard allows for only a single method of presenting major discretely presented components by requiring the presentation of each major component unit separately in the reporting entity’s statement of net position and statement of activities. Alternative methods for presenting major discretely presented component units, such as including the information in the footnotes, are excluded from the new guidance.

Preparers need to apply judgment to evaluate whether each discretely presented component unit is “major” based on the nature and significance of its relationship to the primary government.

### How we see it

We encourage preparers evaluating component unit presentation to follow these steps: (1) identify the potential component unit and evaluate it for inclusion in the financial statements, (2) determine whether it is a blended component unit or a discretely presented component unit, (3) evaluate previous conclusions regarding what discretely presented component units are major and nonmajor, and (4) document the evaluation and considerations for the determination of each component unit.



## Statistical section

BTA governments that present a statistical section will need to make sure the changes to the proprietary fund statement in the statement of revenues, expenses and changes in fund net position are reflected in the section. This is achieved by presenting revenues by major source for their business-type activities, distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses.

The adoption of GASB 103 represents an accounting change. For reporting periods presented in the basic financial statements, the required supplementary information should be adjusted or restated to align with the basic financial statements. Earlier periods presented do not need to be restated.

## Next steps

The GASB is expected to issue guidance on emerging issues resulting from the implementation of the standard. Management should continue evaluating the standard's impact on the presentation of BTA government financial statements and allocate ample resources and time for adoption.

The GASB has issued [proposed implementation guidance](#) addressing the application of subsidy-related guidance. Comments are due by 27 April 2026.

## Endnotes:

- <sup>1</sup> GASB 103, paragraph 13.
- <sup>2</sup> GASB 103, paragraph 14.