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### GASB Updates the Financial Reporting Model

On May 28, 2024, GASB wrapped up one of its longest running projects with the issuance of [Statement No. 103, \*Financial Reporting Model Improvements\*](#). These changes will apply to the financial statements of all state and local governments. While some of the proposed requirements were scaled back based on stakeholder feedback, for many governments this could be a time-consuming implementation depending on current reporting practices. Statement 103 updates requirements for management’s discussion and analysis (MD&A), unusual and infrequent items, proprietary fund statement, component unit, and budget presentation. Do not underestimate the effort involved. Here’s what you should know.



### Background

Statement 34, released in 1999, established the basic financial statements’ format and measurement focus, notes, and required supplementary information (RSI), including MD&A. Statement 34 introduced governmentwide financial statements containing accrual information—which notably included the reporting of infrastructure, other capital assets, and long-term liabilities—for activities previously reported only on a modified accrual basis in the governmental funds. Statement 34 also required a narrative MD&A to precede the financial statements, added the presentation of the original budget to the budgetary comparison schedule, introduced major fund reporting in the governmental and enterprise funds, and added note disclosures related to capital asset and long-term liability activity during the reporting period.

Preliminary research to update this model began in 2013. Over the past decade, GASB conducted surveys of preparers, auditors, and users as well as field tests, hosted multiple user forums and public hearings, and sorted through hundreds of comment letters in developing Statement 103.



### A. MD&A

Basic financial statements will continue to be preceded by MD&A, which is presented as RSI. MD&A should provide an objective and easily readable analysis of the government’s financial activities based on currently known facts,<sup>1</sup>

<sup>1</sup> For purposes of MD&A, currently known refers to information that management is aware of as of the date the financial statements are issued. Assurance

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decisions, or conditions and presents comparisons between the current year and the prior year, with emphasis on the current year. MD&A information should be limited to the related topics discussed in five sections:

- Overview of the Financial Statements. An overview of the basic financial statements, including the relationships of the statements to each other. The overview should focus on the significant differences in the types of information the financial statements provide.
- Financial Summary.
- Detailed Analyses.
- Significant Capital Asset & Long-Term Financing Activity.
- Currently Known Facts, Decisions, or Conditions.

The detailed analyses should explain why balances and results of operations changed rather than simply presenting change amounts or percentages. MD&A analysis should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections. In addition, “boilerplate” discussions should be avoided by presenting only the most relevant information, focused on the primary government (if appropriate, the reporting entity’s MD&A should refer users to the component unit’s separately issued financial statements). Statement 103 continues the requirement that information included in MD&A distinguishes between that of the primary government and its discretely presented component units.

### Financial Summary

Condensed financial information is derived from the governmentwide financial statements comparing the current year to the prior year for both governmental activities and business-type activities. Governments should present the information needed to support their analysis of financial position and results of operations, including the following elements, if applicable:

- Total assets, distinguishing between capital assets and other assets
- Total deferred outflows of resources
- Total liabilities, distinguishing between long-term liabilities and other liabilities
- Total deferred inflows of resources
- Total net position, distinguishing between the net investment in capital assets, restricted net position, and unrestricted net position
- Program revenues, by major source, distinguishing between charges for services, operating grants and contributions, and capital grants and contributions
- General revenues, by major source
- Total revenues
- Program expenses, at a minimum by function or identifiable activity, as appropriate
- Total expenses
- Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, transfers, and unusual or infrequent items
- Contributions to term and permanent endowments or permanent fund principal
- Transfers
- Unusual or infrequent items
- Beginning net position
- Change in net position
- Ending net position

## Detailed Analyses

For both disclosures noted below, when appropriate, a government should refer to the significant capital asset and long-term financing analysis (see below) rather than duplicating information. Do not just report the amounts or percentages of significant changes; explain why those changes from the prior year occurred and the magnitude of those changes. Details should include facts, decisions, or conditions about which the user may not be aware, with the understanding that not all users may be from the government’s geographical area.

### a. Primary Government’s Financial Position & Results of Operations

This analysis should summarize significant changes to both governmental activities and business-type activities as reported in the governmentwide financial statements. Disclosure should include a discussion of significant policy changes (such as changes in tax rates or fees, or the imposition of a hiring freeze) and important economic factors (such as changes in the tax or employment bases) that significantly affected operating results for the year.

### b. Fund Balance or Net Position & Results of Operations of Each Major Fund

This analysis should summarize significant changes to each major fund. The analysis also should address restrictions, commitments, and assignments that significantly affect the availability of fund resources for future use.

## Significant Capital Asset & Long-Term Financing Activity

Statement 103 requires the following disclosures in MD&A:

- A description of **significant capital asset** activity during the year, including certain intangible assets (leases, public-private partnerships (PPPs) and subscription-based information technology arrangements (SBITAs). Details should include a discussion of significant additions and disposals of capital assets and changes to commitments for capital asset acquisitions. The description should address any significant policy changes and economic factors relevant to the year’s capital asset activity. The description should refer to the detailed analysis requirements above rather than duplicating information.
- A description of **significant long-term financing activity** during the year, including debt, leases, PPPs and SBITAs. Details should include a discussion of new agreements, credit ratings changes, and changes to debt limitations that may affect the financing of planned facilities or services, if any. The description should address any significant policy changes and economic factors relevant to the year’s long-term financing activity. The description should refer to the detailed analysis noted above rather than duplicating information.

Statement 34, as amended, currently requires certain disclosures about capital assets and long-term liabilities, including long-term debt and leases. It may be sufficient for the purposes of this MD&A discussion to summarize that information and refer to those disclosures for additional details.

## Currently Known Facts, Decisions, or Conditions

Current guidance in this area includes specific types of information. Statement 103 now includes examples rather than specific requirements to reduce boilerplate language and better reflect information specific to each government. To limit the volume of disclosure, Statement 103 requires a description of **currently** known facts, decisions, or conditions that are expected to have a **significant** effect on financial position (net position) or that are

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expected to produce **significant** differences from current-period results of operations (revenues, expenses, and other changes in net position). Examples of the types of information include—but are not limited to—the following:

- Trends in relevant economic and demographic data, such as changes in population (total or specific age groups), customer base, income levels, building permits, enrollment, and unemployment rates
- Relevant factors used to develop the subsequent year’s budget that will provide an indication of how results of operations are expected to change in the subsequent year, such as:
  - Those that are expected to result in changes in the total amount available for appropriation, referring as needed to relevant information about specific revenue sources (changes in tax rates or fee amounts) and changes in the economic bases or range of activities for those revenue sources
  - Those that are expected to result in changes in planned spending, referring as needed to relevant explanatory factors, e.g., inflation, labor contracts, or new laws or regulations, and the addition, expansion, elimination, or reduction of programs
- Expected changes in budgetary net position or fund balance
- Actions the government has taken related to postemployment benefit liabilities, capital asset improvement plans, lessee liabilities, operator liabilities in PPP arrangements, SBITA liabilities, and other long-term financings that will affect the government in a subsequent period
- Actions other parties have taken that will affect the government in a subsequent period, such as new legislation or regulations imposed on the government

**This is not an all-inclusive list; information about any additional types of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or to produce significant differences from current-period results of operations should be provided.**

## B. Unusual or Infrequent Items

Currently, Statement 34 requires that the resource flows statements separately present transactions and other events that are both unusual in nature **and** infrequent in occurrence—extraordinary items—as well as transactions and other events that are within the control of management and are either unusual in nature **or** infrequent in occurrence—special items. Unusual or infrequent items are transactions and other events that are unusual in nature or infrequent in occurrence.<sup>2</sup>

While financial statement users valued the separation of special and extraordinary items to identify normal operations from one-time events and compare different governments, identifying whether an item is both unusual in nature and infrequent in occurrence or whether the item has only one of those characteristics was challenging for financial statement preparers.

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<sup>2</sup>These terms are defined in Statement 62. The following criteria should be met to classify an event or transaction as either unusual in nature or infrequent in occurrence:

- a. Unusual nature—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates. Unusual nature is not established by the fact that an event or transaction is beyond the control of management.
- b. Infrequency of occurrence—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. The past occurrence of an event or transaction for a particular government provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future.

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To simplify this process, GASB concluded that instead of special and extraordinary items, all unusual or infrequent items should be presented separately in the financial statements regardless of whether the item was within control of management. Information on whether an item was within the control of management—one of the characteristics of special items—should be conveyed through financial statement footnote disclosure.

Statement 103 now describes unusual or infrequent items as transactions and other events that are **either** unusual in nature **or** infrequent in occurrence. (There is no change to these definitions in Statement 62.) Governments will be required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the governmentwide, governmental fund, and proprietary fund statements of resource flows.

### C. Proprietary Fund Statement of Revenues, Expenses, & Changes in Fund Net Position

Statement 103 requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses, as well as separately reporting noncapital subsidies. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as:

- 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
- Investment income and expenses

The statement of revenues, expenses, and changes in fund net position should present the following information in the order shown:

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

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### Fund net position—end of period

Statement 103 defines “subsidiaries” for the first time as:

- Resources **received** from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) 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 (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund’s current or future pricing policies
- All other transfers

## D. Major Component Unit Information

Previous guidance allowed several options for the presentation of major component unit information:

- Presenting each major component unit separately in the reporting entity’s statements of net position and activities
- Including combining statements of major component units in the reporting entity’s financial statements after the fund financial statements
- Presenting condensed financial statements of major component units in notes to the reporting entity’s financial statements

Concepts Statement 3, issued in 2005, clarified the relationships between basic financial statements, basic financial statement notes, and supporting information presented with basic financial statements within the framework of general purpose external financial reporting. It established a hierarchy that provided a conceptual basis for selecting the appropriate communication method for each item of information.

As a result, Statement 103 eliminates the option to report information about major component units in the reporting entity’s financial statement notes and now requires governments to present each major component unit separately in the reporting entity’s statement of net position and statement of activities if it does not reduce the statement’s readability. If the readability would be reduced, combining statements of major component units should be presented after the fund financial statements.

## E. Budgetary Comparison Information

GASB also cited Concepts Statement 3 to mandate a single method of communication for budgetary comparison information. Statement 103 now requires governments to present budgetary comparison information in RSI and not as a basic financial statement.

Pre-agenda research indicated that most governments currently report their budgetary comparisons as RSI.

Governments will be required to present both variances between original and final budget amounts and variances between final budget and actual amounts. Significant variances should be explained in notes to RSI.

## F. Financial Trends Information

In the statistical section of separately issued financial reports, governments engaged only in business-type activities or only in business-type and fiduciary activities should present revenues by major source for their business-type activities, distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses.

## Conclusion

For some governments, the adoption of Statement 103 could require significant hours to implement. Schedule time with your advisors and/or audit firm to sign off on all key adoption concepts. Forvis Mazars can help educate your team, provide implementation tools, and assist with analysis and documentation. If you would like assistance complying with the new guidance, reach out to a professional at Forvis Mazars.

Being a public servant is not for the faint of heart. Aging infrastructure, limited revenue sources, regulatory changes, and ever-present budgetary constraints are only a few of the many challenges you face as you strive to meet the needs of your residents, customers, and communities. But everyone could use a little help now and then, and Forvis Mazars can help provide the support you need. Our public sector accounting, audit, and consulting experience and resources can help you stay compliant, stretch your dollar, and plan for the future. We assist public sector entities with:

Financial Statement Audits & Reviews

State Agency Risk Management & Internal Control Testing

New Accounting Standard Implementation

Attest Services

Uniform Guidance/Single Audit & HUD

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