

# The Impact of GASB 103 on Your Financial Statements

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For CGFOA by RubinBrown LLP

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CERTIFIED PUBLIC ACCOUNTANTS  
& BUSINESS CONSULTANTS



# GASB Statement No. 103

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- Title: *Financial Reporting Model Improvements*
- Issued: April 2024
- Effective Date: Fiscal years beginning after June 15, 2025
- High Level Summary: GASB 103 makes a number of revisions to the way governmental financial statements are presented

# Background: What Led to GASB 103?

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- GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis*—for State and Local Governments issued in June 1999
  - Established the existing financial reporting model for governments
- Reexamination of the financial reporting model was added to the GASB agenda in August 2013

# Background: What Led to GASB 103?

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- Invitation to Comment issued in December 2016
- Preliminary Views issued in September 2018
- Exposure Draft issued in June 2020

# Background: What Led to GASB 103?

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- Based on its outreach activities and responses received to the exposure documents, the GASB concluded that:
  - Most components of the GASB 34 financial reporting model are effective
  - Certain areas were identified where improvement could be made
- Thus, the GASB decided to make targeted improvements to the financial reporting model instead of taking a “clean slate” approach

# Topics Covered by GASB 103

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- Management's discussion and analysis
- Unusual and infrequent items
- Presentation of proprietary funds statement of revenues, expenses, and changes in net position
- Information about major component units in basic financial statements
- Budgetary comparison information

# Management's Discussion and Analysis

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- Information included in MD&A should be limited to five topics (discussed in more detail on a subsequent slide):
  - Overview of financial statements
  - Financial summary
  - Detailed analysis
  - Significant capital and long-term debt activity
  - Currently known facts, decisions, or conditions

# Management's Discussion and Analysis

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- Moves budgetary analysis and discussion of the modified approach to infrastructure assets (as applicable) to RSI
- MD&A should focus on the primary government
  - Extent to which discretely presented component units should be discussed is a matter of professional judgment

# Management's Discussion and Analysis

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- MD&A should be:
  - Objective and fact-based
  - Readable
  - Avoid boilerplate language and duplication of other portions of the MD&A

# Sections of the MD&A

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- Overview of the financial statements
  - Provide an overview of the different financial statements and their relationship to one other
  - Focus on the differences in the types of information the statements provide
- Financial summary
  - Condensed financial summary of the government-wide financial statements (including all elements shown on the next slide)

# Elements of the Condensed Financial Summary

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- (1) Total assets, distinguishing between capital assets and other assets
- (2) Total deferred outflows of resources
- (3) Total liabilities, distinguishing between long-term liabilities and other liabilities
- (4) Total deferred inflows of resources
- (5) Total net position, distinguishing between the net investment in capital assets, restricted net position, and unrestricted net position
- (6) Program revenues, by major source, distinguishing between charges for services, operating grants and contributions, and capital grants and contributions
- (7) General revenues, by major source
- (8) Total revenues
- (9) Program expenses, at a minimum by function or identifiable activity, as appropriate
- (10) Total expenses
- (11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, transfers, and unusual or infrequent items
- (12) Contributions to term and permanent endowments or permanent fund principal
- (13) Transfers
- (14) Unusual or infrequent items
- (15) Beginning net position
- (16) Change in net position
- (17) Ending net position.

# Example Presentation From GASB 103 (Statement of Net Position)

Table A-1  
Sample City's Net Position  
(amounts expressed in thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 20X5-20X4
	20X5	20X4	20X5	20X4	20X5	20X4	
Current and other assets	\$ 849,249	\$ 760,540	\$ 96,025	\$ 100,640	\$ 945,274	\$ 861,180	9.8%
Capital assets, net	1,845,379	1,781,939	576,876	566,000	2,422,255	2,347,939	3.2%
<b>Total assets</b>	<b>2,694,628</b>	<b>2,542,479</b>	<b>672,901</b>	<b>666,640</b>	<b>3,367,529</b>	<b>3,209,119</b>	<b>4.9%</b>
Deferred outflows of resources	89,902	70,018	3,994	3,130	93,896	73,148	28.4%
Long-term liabilities	975,103	922,831	103,694	104,502	1,078,797	1,027,333	5.0%
Other liabilities	40,321	46,197	23,601	24,965	63,922	71,162	-10.2%
<b>Total liabilities</b>	<b>1,015,424</b>	<b>969,028</b>	<b>127,295</b>	<b>129,467</b>	<b>1,142,719</b>	<b>1,098,495</b>	<b>4.0%</b>
Deferred inflows of resources	35,295	27,322	1,204	1,226	36,499	28,548	27.9%
Net position							
Net investment in capital assets	1,216,106	1,209,700	489,610	474,914	1,705,716	1,684,614	1.3%
Restricted	705,464	711,690	17,514	14,985	722,978	726,675	-0.5%
Unrestricted	(187,759)	(305,243)	41,272	49,178	(146,487)	(256,065)	42.8%
<b>Total net position</b>	<b>\$ 1,733,811</b>	<b>\$ 1,616,147</b>	<b>\$ 548,396</b>	<b>\$ 539,077</b>	<b>\$ 2,282,207</b>	<b>\$ 2,155,224</b>	<b>5.9%</b>

# Example Presentation From GASB 103 (Statement Rev, Exp, Changes in NP)

Table A-4  
Revenues and Expenses  
(amounts expressed in thousands)

	Public Utility		Transit Authority		Golf Courses	
	20X5	20X4	20X5	20X4	20X5	20X4
Total operating revenues	\$ 41,286	\$ 37,033	\$ 18,669	\$ 18,406	\$ 2,665	\$ 2,838
Total operating expenses	40,777	39,959	25,378	25,255	7,433	5,676
Operating income (loss)	509	(2,926)	(6,709)	(6,849)	(4,768)	(2,838)
Noncapital Subsidies						
Transfers in	-	-	2,090	3,502	110	2,203
Transfers out	(1,980)	-	-	-	-	-
Total noncapital subsidies	(1,980)	-	2,090	3,502	110	2,203
Operating income (loss) and noncapital subsidies	(1,471)	(2,926)	(4,619)	(3,347)	(4,658)	(635)
Other Nonoperating Revenues (Expenses)						
Earnings on investments	1,496	844	75	69	103	-
Interest expense	(1,910)	(2,141)	(448)	(500)	(963)	-
Capital contributions	2,938	2,199	-	-	-	-
Transfers in restricted for capital assets	1,032	497	15,360	-	2,384	252
Total other nonoperating revenues (expenses)	3,556	1,399	14,987	(431)	1,524	252
Increase (decrease) in fund net position	2,085	(1,527)	10,368	(3,778)	(3,134)	(383)
Total fund net position—beginning of period	331,857	333,184	177,997	181,775	29,423	29,806
Total fund net position—end of period	\$ 333,742	\$ 331,657	\$ 188,365	\$ 177,997	\$ 26,289	\$ 29,423

# Sections of the MD&A

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- Detailed Analysis
  - Detailed analysis of the primary government's financial position and results of operations
  - Analysis of fund balance/net position and results of operations of each major fund

# Sections of the MD&A

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- Significant Capital Asset and Long-Term Financing Activity
  - Description of capital asset activity during the year, including intangible assets
  - Discuss additions, disposals, changes in commitments and policy changes
  - Description of significant long-term financing activity, including debt, leases, SBITAs and PPPs
  - Discuss new debt agreements, changes in credit ratings, changes in debt limitations, policy changes and economic factors

# Sections of the MD&A

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- Currently Known Facts, Decisions, and Commitments
  - Discuss currently known facts, decisions, and commitments expected to impact net position
  - Discuss currently known facts, decisions, and commitments expected to produce significant differences from current period operations

# Sections of the MD&A

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- Currently Known Facts, Decisions, and Commitments
  - Examples include:
    - Trends in economic and demographic data
    - Relevant factors used to develop the subsequent year's budget
    - Expected changes in budgetary net position or fund balance
    - Significant actions the government has taken
    - Significant actions other parties have taken

# Rationale Behind Changes to MD&A Requirements

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- Feedback the GASB received indicated that MD&A is effective in providing decision-useful information
- However, GASB determined that the following improvements could be made:
  - Reduce boilerplate discussion
  - Increase focus on explanations of the reasons for year-to-year changes
  - Reduce repetition
  - Clarify the requirements related to currently known facts, decisions, and conditions

# Unusual and Infrequent Items

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- **Unusual and infrequent items** are transactions and other events that are **either** unusual in nature **or** infrequent in occurrence
- Replaces extraordinary items and special items under GASB 34:
  - Extraordinary items were **both** unusual and infrequent
  - Special items were **either** unusual or infrequent
  - GASB's research indicated that it was challenging in practice to determine if an item had both characteristics or only one

# Unusual and Infrequent Items

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- Presented as the last item on the flows statement
- Each unusual or infrequent item should be presented separately

# Operating and Nonoperating Activities in Proprietary Funds

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- GASB 103 modifies the presentation of the proprietary fund statement of revenues, expenses, and changes in net position
- Specific changes discussed on the slides that follow

# Operating and Nonoperating Activities in Proprietary Funds

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- Nonoperating activities are now defined to include the following:
  - Subsidies received and provided
  - Contributions to permanent and term endowments
  - Revenues and expenses of financing
  - Resources from the disposal of capital assets and inventory
  - Investment income and expenses
- Operating activities include all other activities

# Subsidies

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- Subsidies include:
  - Resources received from another party or fund to keep rates lower than would otherwise be necessary
  - Resources provided to another party that are recoverable through the proprietary fund's current or future pricing policies
  - All other transfers
- New subtotal for proprietary fund statement of revenues, expenses, and changes in fund net position: operating income (loss) and noncapital subsidies

# Transactions to Consider

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- Taxes levied by a utility – Subsidy received
- Proceeds from legal settlements – Operating Revenue
- Contributions of infrastructure – Other nonoperating revenue
- Connection/Tap Fees – Operating & Nonoperating (Depends on the use of these funds)
- Lease revenue - Operating & Nonoperating Revenue (Lease “principal” is operating, “interest” is nonoperating)

# Transactions to Consider

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- Subsidy received used to acquire a capital asset, but the provider did not limit use of the resources to acquiring capital assets – Noncapital subsidy
- Payments in lieu of taxes (PILT/PILOTs) made by a utility or an enterprise fund
  - If a payment for goods or services provided – Operating revenue
  - If to compensate for lost tax revenue and the fund's or BTA's rates are set to produce enough revenue to pay – Subsidy

# Impact for Colorado Governments

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- Many business-type funds at municipalities receive funds from the state government via grants (federal or non-federal)
- Under existing GAAP, these are reported as intergovernmental revenue
- Under GASB 103, these will be reported as a noncapital subsidy if used for operations
- Any subsidies for capital purposes will be reported as a capital contribution

# Proprietary Fund Flows Statement Changes

Pre GASB 103		Post GASB 103	
	Public Utility		Public Utility
<b>OPERATING REVENUES</b>		<b>OPERATING REVENUES</b>	
Charges for services	\$ 41,003	Charges for services	\$ 41,003
Miscellaneous	283	Miscellaneous	283
Total operating revenues	41,286	Lease revenue	125
<b>OPERATING EXPENSES</b>		Total operating revenues	41,411
Personnel services	13,991	<b>OPERATING EXPENSES</b>	
Contractual services	13,952	Personnel services	13,991
Depreciation	11,767	Contractual services	13,952
Other	1,067	Depreciation	11,767
Total operating expenses	40,777	Other	1,067
Operating income (loss)	509	Total operating expenses	40,777
<b>NONOPERATING REVENUES (EXPENSES)</b>		Operating income (loss)	634
Property taxes	550	<b>NONCAPITAL SUBSIDIES</b>	
Intergovernmental revenue	1,367	Property taxes	550
Lease revenue	125	Intergovernmental revenue	1,367
Investment and interest income	496	Transfers in	250
Interest expense	(1,910)	Transfers out	(1,980)
Total nonoperating revenues (expenses)	628	Total noncapital subsidies	187
Income before contributions and transfers	1,137	Operating income (loss) and noncapital subsidies	821
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>		<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>	
Transfers in	1,282	Investment and interest income	496
Transfers out	(1,980)	Interest expense	(1,910)
Capital contributions	2,938	Capital contributions	2,938
Increase (decrease) in fund net position	3,377	Transfers in - restricted for capital assets	1,032
Fund net position—beginning of period	331,657	Total other nonoperating revenue (expenses)	2,556
Fund net position—end of period	\$ 335,034	Increase (decrease) in fund net position	3,377
		Fund net position—beginning of period	331,657
		Fund net position—end of period	\$ 335,034

# Changes to Income Statement – Post 103

<b>Post GASB 103</b>		
	<b>Public Utility</b>	
Operating income (loss)	634	
<b>NONCAPITAL SUBSIDIES</b>		
Property taxes	550	<b>NEW:</b> Noncapital (a.k.a. operating) subsidies – includes all operating transfers, operating grants, and taxes for operating purposes
Intergovernmental revenue	1,367	
Transfers in	250	
Transfers out	(1,980)	
Total noncapital subsidies	187	
Operating income (loss) and noncapital subsidies	821	
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>		
Investment and interest income	496	<b>CHANGE:</b> Other nonoperating now houses capital contributions, interest income/expense, capital transfers
Interest expense	(1,910)	
Capital contributions	2,938	
Transfers in - restricted for capital assets	1,032	
Total other nonoperating revenue (expenses)	2,556	
Increase (decrease) in fund net position	3,377	
Fund net position—beginning of period	331,657	
Fund net position—end of period	\$ 335,034	

# Statement of Cash Flow Implications

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- Statement of cash flow categories were established by GASB Statement No. 9 as amended by GASB Statement No. 34. Categories include:
  - Operating
  - Noncapital financing
  - Capital financing
  - Investing
- The types of transactions to be included in each category of the cash flow statement have **NOT** changed as a result of GASB Statement No. 103.

# Statement of Cash Flow Implications

	<u>Golf Courses</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 39,371
Payments to suppliers	(12,604)
Payments to employees	(14,465)
Net cash provided (used) by operating activities	<u>12,302</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating subsidies received—transfers in	-
Operating subsidies provided—transfers out	(1,980)
Proceeds from insurance reimbursements	-
Net cash provided (used) by noncapital financing activities	<u>(1,980)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from disposition of capital assets	-
Cash received from developers for capital purposes	1,100
Transfers from other funds for capital additions	1,032
Purchases of capital assets	(10,176)
Principal paid on debt	(2,400)
Interest paid on debt	(1,864)
Net cash provided (used) by capital and related financing activities	<u>(12,308)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	750
Interest and dividends	1,072
Net cash provided by investing activities	<u>1,822</u>
Net increase (decrease) in cash and cash equivalents	(164)
Balances—beginning of the period	<u>37,538</u>
Balances—end of the period	<u>\$ 37,374</u>

Noncapital (a.k.a. operating) subsidies – included in noncapital financing activities

Capital related activity remains in cash flows from capital and related financing activity

# Rationale Behind Changes to Proprietary Fund Statements

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- Related to operating vs. nonoperating classification, the Board determined that:
  - Guidance on classifying operating vs. nonoperating items was needed to improve consistency
  - The best way to do this was to define one of the terms and then have all remaining items fall into the other category
  - Nonoperating revenues and expenses were easiest to define

# Rationale Behind Changes to Proprietary Fund Statements

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- Related to the new category of subsidies, the Board determined that:
  - A self-sustaining vs. subsidized model made the most sense
  - New model helps readers determine whether the proprietary activity is self-sustaining or whether subsidies are required

# Major Fund Determination

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- Changes to the income statement will impact the major fund calculation for enterprise/business funds:
  - Operating transfers are subsidies
  - Subsidies are nonoperating revenue/expenses
  - Nonoperating revenue and expenses **are included** in revenue and expense/expenditure thresholds for major fund determination
- Make sure to update your calculation for major fund determination for this change.

# Budgetary Comparison Information

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- Should be presented as RSI
  - Eliminates the option to present as a separate main financial statement at the front of the document
- Separate columns for variances between:
  - Original and final budget amounts
  - Final budget amounts and actual results
- An explanation of “significant” variances is required to be presented in the notes to RSI
  - Significant is undefined in GASB 103 – Use best judgement

# Budgetary Comparison Information

**Required Supplementary Information**  
**Sample City**  
**Budgetary Comparison Schedule**  
**Public Safety and Transportation Special Revenue Fund**  
**for the Year Ended June 30, 20X5**  
*(amounts expressed in thousands)*

	Budgeted Amounts		Variance with Original Budget— over (under) Final Budget	Actual Amounts Budgetary (and GAAP) Basis	Variance with Final Budget— over (under) Actual Amounts
	Original	Final			
<b>BUDGETARY REVENUES</b>					
Taxes	\$ 49,825	\$ 49,825	\$ -	\$ 51,442	\$ 1,617
Intergovernmental	29,750	29,750	-	30,337	587
Charges for services	6,720	6,720	-	6,848	128
Investment earnings	1,900	1,900	-	2,295	395
Total budgetary revenues	<u>88,195</u>	<u>88,195</u>	<u>-</u>	<u>90,922</u>	<u>2,727</u>
<b>BUDGETARY EXPENDITURES</b>					
Current:					
General government	13,665	15,305	1,640	15,083	(222)
Public safety	58,000	58,250	250	58,452	202
Public works	<u>16,265</u>	<u>16,945</u>	<u>680</u>	<u>16,934</u>	<u>(11)</u>
Total budgetary expenditures	<u>87,930</u>	<u>90,500</u>	<u>2,570</u>	<u>90,469</u>	<u>(31)</u>
Net change in fund balances	265	(2,305)	2,570	453	2,758
Budgetary fund balance—beginning of period	<u>4,024</u>	<u>4,024</u>	<u>-</u>	<u>4,024</u>	<u>-</u>
Budgetary fund balance—end of period	<u>\$ 4,289</u>	<u>\$ 1,719</u>	<u>\$ 2,570</u>	<u>4,477</u>	<u>\$ 2,758</u>
<b>RECONCILIATION TO GAAP BASIS</b>					
Total fund balance GAAP basis				<u>\$ 4,477</u>	

# Budgetary Comparison Explanations

**Required Supplementary Information**  
**Note to Budgetary Comparison Schedules**  
*(amounts expressed in thousands)*

**Note A—Actual Budget Results**

	<b>General Fund over (under)</b>	<b>Public Safety and Transportation Fund over (under)</b>
<b>BUDGETARY REVENUES</b>		
Differences—final budget to actual:		
The City experienced an increase in revenue for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 4,170	\$ 1,617
Actual amounts of interest revenue exceeded budgeted amounts as the City saw higher interest rates than expected.	1,692	395
<b>BUDGETARY EXPENDITURES</b>		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building expenditures. Station #453 will be opening in the next fiscal year, and these expenditures have been included in the next year's budget.	\$ (2,526)	\$ -

*Note: Can also be done in a narrative format, if desired*



# Rationale Behind Changes to Budgetary Comparison Information

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- The Board concluded that:
  - It was preferable to have budgetary comparison information presented using a single method of communication
  - Presentation of budgetary comparison information within RSI is more consistent with the provisions of GASB Concepts Statement No. 3, since this information provides operational context for the financial statements as opposed to being a financial statement itself.
- More discussion on the implication of this change to follow in subsequent sections of this presentation

# Impact for Colorado Governments

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- Colorado governments are required to present budget to actual schedules for all funds with an adopted budget
- Best practice recommendation would be for budget to actuals presented in supplementary information (SI) to include the changes made to RSI.
- As there is no specific place for “notes” to SI, recommend adding disclosure of significant differences at the bottom of each schedule as space allows

# Major Component Unit Presentation

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- Two options for presentation:
  - In separate columns on government-wide financial statements
  - In a combining statement of major component units presented as part of the basic financial statements after the fund financial statements
- Eliminates option to present a combining schedule in the footnotes

# Major Component Unit Presentation

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- For discretely presented component units that report under FASB standards:
  - Present as separate financial statements
  - No statement of cash flows is presented
- The Board concluded that presentation of major component unit information within a financial statement is more consistent with the provisions of GASB Concepts Statement No. 3.

# Other Miscellaneous GASB 103 Items

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- Don't forget to update your summary of significant accounting policies note!
- Need to redefine nonoperating revenue and expenses for proprietary funds
- Define new “noncapital subsidies” category, and include the definition of subsidy
- All revenues and expenses not meeting definitions of nonoperating revenues and expenses are reported as operating revenues and expenses

# Guidance on Subsidies from Implementation Guide Exposure Draft

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- GASB has issued an Exposure Draft of the *Implementation Guide 2026 - Subsidies*
- This is an Exposure Draft only—**not yet final guidance**
- Would be effective for June 30, 2027 fiscal year-ends and forward

# Taxes Imposed by BTA(4.5)

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## Proposed Question

Do taxes imposed by a Business-type Activity (BTA) meet the definition of subsidies in paragraph 14a of Statement 103?

**Exposure Draft**

## Proposed Answer

Yes.  
Taxes imposed by a BTA meet the definition of subsidies because they

- (a) are received from parties who do not directly receive goods or services from the BTA as a result of the tax and
- (b) directly or indirectly keep the BTA's current or future fees and charges lower than they would be otherwise.

# Subsidies Other Than Noncapital Subsidies(4.7)

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## Proposed Question

How should subsidies other than noncapital subsidies be reported?

**Exposure Draft**

## Proposed Answer

Subsidies other than noncapital subsidies are capital subsidies and should be reported as other nonoperating revenues and expenses.

(See also Question 7.73.2 in IG No. 2015-1, as amended)

# Subsidies With Limitations(4.8)

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## Proposed Question

How should subsidies be classified if the provider of the resources limits the use to debt service for capital-related debt?

**Exposure Draft**

## Proposed Answer

In this circumstance, subsidies should be classified as capital subsidies because the use of the resources is limited by the provider to debt service for capital-related debt, which is capital in nature.

# Questions

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