

**Governmental Accounting Standards Board**  
**Statement No. 103, *Financial Reporting Model Improvements***  
**Overview**

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**Purpose:**

To provide an overview of the accounting and financial reporting requirements of Governmental Accounting Standards Board Statement No. 103, *Financial Reporting Model Improvements* (GASB 103). This statement is implemented in the State's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2026, and beyond. All departments must evaluate the impact on their GAAP reporting to SCO.

**Background:**

In April 2024, GASB issued GASB 103. The objective of this Statement is to improve key components of the financial reporting model to enhance the usefulness and clarity of financial information for decision making and assessing a government's accountability. GASB 103 introduces targeted improvements to:

- a. Management's Discussion and Analysis (MD&A),
- b. The presentation and definitions used in proprietary fund financial statements,
- c. The classification and presentation of operating and nonoperating revenues and expenses,
- d. The presentation of unusual or infrequent items,
- e. The presentation of discretely presented major component unit information,
- f. Budgetary comparison information, and
- g. Certain statistical section presentations.

**Summary:**

**Definitions**

GASB 103 clarifies the definition of operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Position of proprietary funds.

*Operating revenues and expenses* include revenues and expenses that arise from the proprietary fund's principle ongoing operations.

*Nonoperating revenues and expenses* include:

- a. Non-capital subsidies received and provided (see below),
- b. Contributions to permanent and term endowments,
- c. Revenues and expenses related to financing,
- d. Investment income and expenses,
- e. Resources from the disposal of capital assets and inventory.

Exception: If a revenue or expense that would normally be considered nonoperating represents the proprietary fund's primary business activity, it should be reported as operating.

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*Non-capital subsidies* are defined as follows:

- a. 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
  - The resources directly or indirectly keep the proprietary fund's current or future fees and charges lower than they otherwise would be.
- b. Resources provided to another party or fund for which:
  - The recipient does not provide goods or services to the proprietary fund, AND
  - The resources are recoverable through the proprietary fund's current or future pricing policies
- c. All other non-capital transfers

*Unusual or Infrequent Items* are defined as:

- a. Unusual in nature – an event or transactions that is abnormal and significantly different from the ordinary and typical activities of the government.
- b. Infrequent of occurrence – an event or transaction of a type that is not reasonably expected to recur in the foreseeable future.

### **Accounting and Financial Reporting Requirements**

#### *Management's Discussion and Analysis*

GASB 103 emphasizes that Management's Discussion and Analysis (MD&A) should provide clear, objective, and easily readable information. The focus of MD&A should be a comparison of results from the prior year with emphasis on the current year. MD&A should answer *why* the balances and results of operations changed from the prior year.

GASB 103 improves MD&A requirements by limiting the discussion to information presented in five prescribed sections:

1. *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.
2. *Financial Summary* – Condensed financial information focused on the government-wide financial statements comparing the current year to the prior year for both governmental and business-type activities expressed as amounts or percentages. It should include the following elements:
  - Total assets, distinguishing between capital and other assets
  - Total deferred outflows of resources
  - Total liabilities, distinguishing between long-term and other liabilities
  - Total deferred inflows of resources
  - Total net position, distinguishing between net investment in capital assets, restricted 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 by function or activity

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- Total expenses
  - Excess (deficiency) before contributions to term and permanent endowments, or permanent fund principal, transfers, and unusual or infrequent items
  - Contributions to term or permanent endowments or permanent fund principal
  - Transfers
  - Unusual or infrequent items
  - Beginning net position
  - Change in net position
  - Ending net position
3. *Detailed Analyses* – including amounts or percentages:
- Government-wide financial statements – Summary of significant (material) changes and reasons (e.g., significant policy changes, changes in economic factors) for those changes to both governmental and business-type activities and the magnitude of those changes.
  - Major fund financial statements – Summary of significant (material) changes and reasons for those changes to both fund balance and results of operations for each major fund and its magnitude. Analysis should also address restrictions, commitments, and assignments of fund balances that significantly (materially) affect availability of resources for future use.
4. *Significant Capital Asset and Long-Term Financing Activity* – Analysis of changes to capital assets (including right-to-use intangible assets) for significant (material) additions and disposals and any commitments to acquire capital assets. Address any policy changes or economic factors relevant to capital assets. Analysis of changes in long-term financing activity (including debt, leases, PPPs, and SBITAs). Details about agreements, changes in credit ratings, changes to debt limits, any significant policy changes or relevant economic factors.
5. *Currently Known Facts, Decisions, or Conditions* – Description of currently known facts, decisions, or conditions expected to have a significant (material) effect on financial position or that will produce significant differences from current-period results (trends in economic and demographic data, changes in customers, income levels, building permits, enrollment, or unemployment rates; changes in revenue sources, inflation, labor, new laws or regulations, changes in major programs). Describe expected changes in budgetary net position, any action the Legislature or Governor has taken related to Pension/OPEB liabilities, capital asset improvements, lessee liabilities, PPP liabilities, SBITA liabilities, and other long-term financing. Describe any external actions which are imposed on the State which may impact the subsequent period (such as federal policy).

*Unusual or Infrequent Items*

GASB 103 adds new presentation and disclosure requirements:

- a. Separate presentation - Present inflows and outflows related to unusual or infrequent items separately (each event and no net figures) as the last flows of resources before the net change in resource flows, and
- b. Disclosure - Disclose in notes to the financial statements the program, function, or activities associated with the unusual or infrequent items, and whether the event was within management's control.

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

GASB 103 requires a prescribed, all-inclusive format and order for this statement, as applicable:

**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-as previously reported**

Error corrections

Change in accounting principle

Change to or within the financial reporting entity

**Fund net position-as restated**

**Fund net position-end of period**

*Major Component Units in Basic Financial Statements*

For major discretely presented component units:

1. Each component unit should be separately presented in the statements of net position/activities if it does not reduce readability, or
2. If separate presentation reduces readability, combining statements must be presented after the fund financial statements

Note: The option to present condensed financial information in the notes to the financial statements is no longer allowable.

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*Budgetary Comparison Information*

Budgetary comparison schedules must be presented as Required Supplementary Information (RSI) for the General Fund and each major special revenue fund with a legally adopted budget.

Revised requirements include:

1. Separate columns displaying variances between:
  - The original and final budget, and
  - The final budget and actual results
2. Notes to RSI explaining significant (material) variances between:
  - The original and final budget, and
  - The final budget and actual results

*Statistical Section – Changes in Net Position*

For governments engaged only in business-type activities, or only in business-type and fiduciary activities, GASB 103 requires updates to the statistical section due to changes in the presentation of proprietary fund financial statements.

The schedule for Changes in Net Position for business-type activities must distinguish between operating revenues and expenses, noncapital subsidies, and other nonoperating revenues and expenses by major source, followed by unusual or infrequent items before the change in net position.

**Effective Date:**

GASB 103 is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The State will implement GASB 103 in the ACFR for the fiscal year ended June 30, 2026.

Implementation of GASB 103 is considered a change in accounting principle and requires disclosure in accordance with GASB Statement No. 100.

**GAAP Reporting Supplemental Materials:**

To support consistent implementation across the State, SCO has developed guidance materials available on the [SCO's GAAP Basis Reporting](#) web page, including:

1. GASB 103 Overview
2. GASB 103 Implementation Checklist
3. GASB 103 Unusual or Infrequent Items Q & A
4. GASB 103 Revenue Classification Flowchart
5. GASB 103 Interfund Transfers Classification Flowchart
6. GASB 103 Proprietary Fund Financial Statements Illustrative Comparison

If you have any questions regarding GASB 103 implementation or the use of the resources available, please contact [SGR@sco.ca.gov](mailto:SGR@sco.ca.gov).