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MEMORANDUM OSRAP 26-08

TO: Fiscal Officers

FROM: Brian Fleming, CPA
Director, Office of Statewide Reporting and Accounting Policy

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*

Link to full statement: [GASBS 103](#)

Effective Date: State's fiscal year ended **June 30, 2026** (*Note: Component units with different fiscal years than the State must implement this standard in the fiscal year included in the State's June 30, 2026 financial statements; for example, a December 31 year-end must implement for the year ending December 31, 2025¹.*)

Summary

GASB Statement No. 103 (GASBS 103) improves key components of the financial reporting model to enhance clarity, consistency, and usefulness for decision makers. This statement affects the following:

- Content of management's discussion and analysis (MD&A).
- Classification of unusual or infrequent items (replacing extraordinary and special items).
- Proprietary fund statement of revenue, expenses, and changes in net position
 - Format/presentation of statement
 - Classification of resource flows (non-operating vs. operating)
 - Creation of new noncapital subsidy category
- Presentation of major component units.
- Presentation of budgetary comparison schedules.
- Content of financial trends information in the statistical section.

For annual fiscal reports (AFRs) submitted to OSRAP, the primary impact of GASBS 103 will be related to the revised classification requirements for proprietary funds' (i.e., enterprise funds and internal service funds) statement of revenue, expenses, and changes in fund net position. This will require proprietary fund entities to reevaluate their revenue and expense transactions to properly classify them as (1) operating, (2) noncapital subsidy, or (3) other nonoperating using the new definitions provided in this Statement. Also, all entities (proprietary and governmental funds) will need to identify and disclose any unusual or infrequent items.

¹ GASB Implementation Guide No. 2025-1, Q&A 4.16 (GASB Comprehensive Implementation Guide, Q&A Z.103.1)

Key Provisions – MD&A

Structural changes to MD&A topics

MD&A Topic Changes	
New Presentation - GASBS 103	Old Presentation - GASBS 34
1. Overview of the financial statements	1. Discussion of the basic financial statements
2. Financial summary	2. Condensed financial information
3. Detailed analyses	3. Analysis of the government’s overall financial position and results of operations 4. Analysis of the balances and transactions of individual funds
4. Significant capital asset and long-term financing activities	5. Description of capital asset and long-term debt activity
5. Currently known facts, decisions, or conditions	6. Currently known facts, decisions, or conditions of future significance
<i>Removed; now presented in notes to RSI</i>	7. Analysis of budgetary variation
<i>Removed</i>	8. Discussion of infrastructure accounted for using the modified approach.

General content requirements

MD&A should:

- Be written in plain language understandable to users without specialized governmental accounting knowledge.
- Focus on explaining **why** balances and results changed from the prior year, rather than simply presenting amounts or percentages.
- Emphasize current-year results compared to the prior year.
- Avoid duplication and boilerplate language.
- Focus on the primary government; discussion of discretely presented component units should be included based on professional judgment.
- Include charts, graphs, and tables when they enhance understanding.
- Exclude information unrelated to the five required topics (such information may be placed elsewhere, such as in the letter of transmittal).

Five (5) required MD&A topics

The information presented in the MD&A should be confined to the topics discussed in the five sections outlined as follows:

1. Overview of the financial statements – Provide a high-level explanation of the basic financial statements and how they relate to one another.
2. Financial summary – Present condensed government-wide financial information comparing current and prior year for both governmental and business-type activities. This section should provide the data needed to support the detailed analysis in the next section.

3. Detailed analyses — This section requires two distinct analyses as follows:

- Primary government analysis: Provide an analysis of the primary government's financial position and results of operations. Summarize significant changes to both governmental activities and business-type activities as reported in the government-wide statements. If applicable, refer to the analysis of significant capital asset and long-term financing activity (section #4 below) rather than duplicating information. In addition to reporting the amounts or percentages of significant changes, the analysis should explain **why** those changes from the prior year occurred and indicate the magnitude of those changes. Disclose significant policy changes and economic factors (for example, tax or fee changes, hiring freezes, changes in tax or employment bases) that significantly affected operating results for the year. Include facts, decisions, or conditions which the user may not be aware with the understanding that not all users are from the geographical area.
- Major fund analysis: Provide an analysis of fund balance or net position and results of operations of each major fund. Summarize significant changes to each major fund. If applicable, refer to the analysis of significant capital asset and long-term financing activity (section #4 below) rather than duplicating information. In addition to reporting the amounts or percentages of significant changes, the analysis should explain **why** those changes from the prior year occurred and indicate the magnitude of those changes. The analysis should address restrictions, commitments, and assignments that significantly affect the availability of fund resources for future use. The analysis of major funds may focus on explanations **that differ from** the analysis already required as part of the primary government analysis rather than duplicating them.

4. Significant capital asset and long-term financing activity — Include the following:

- Capital assets: Describe significant additions, disposals, and changes to acquisition commitments, including certain intangible assets. Describe relevant policy changes and economic factors. Reference the detailed analysis (section #3 above) rather than duplicating information when applicable.
- Long-term financing: Describe significant activity involving debt, leases, public-private and public-public partnerships (PPPs), and subscription-based IT arrangements (SBITAs). Include new agreements, credit rating changes, and changes to debt limits that could affect planned facilities or services. Describe relevant policy changes and economic factors. Reference the detailed analysis (section #3 above) rather than duplicating information when applicable.

5. Currently known facts, decisions, or conditions — Include descriptions of currently known items that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from current-period results of operations (revenues, expenses, and other changes in net position). Examples include:

- Relevant economic and demographic trends, such as changes in population, customer bases, income levels, building permits, enrollment, and unemployment.
- Relevant budgetary factors used to develop the subsequent year's budget that indicate expected changes in operations, such as expected changes in revenue availability (e.g., changes in tax or fee rate, changes in economic bases or range of activities to which rates/fees are applied) or expected changes in planned spending (e.g., inflation, labor contracts, new laws, program additions/expansions/reductions).
- Expected changes in budgetary net position or fund balance.

- Government actions taken regarding postemployment benefit liabilities, capital improvement plans, lessee liabilities, operator liabilities in PPPs, SBITA liabilities, and other long-term financings that will affect future periods.
- External actions taken by legislation, regulations imposed on the government, or other actions by third parties that will affect the government in future periods.

The above examples are not all-inclusive; 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.

Key Provisions – Unusual or Infrequent Items

GASBS 103 replaces extraordinary and special items with unusual or infrequent items, defined as:

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.

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.

An item qualifies if it meets **either** criterion; unlike previous guidance for extraordinary items, it does **not** need to meet **both**.

Statement presentation

These items must be presented individually as the last presented flow(s) of resources prior to the net change in resource flows in government-wide, governmental fund, and proprietary fund statements. Also, the inflows and outflows related to each individual item should **not** be netted on the statements.

Note disclosure

Disclose the program, function, or identifiable activity to which the unusual or infrequent item is related, if applicable, and whether that item is within the control of management.

Key Provisions – Presentation of the Proprietary Fund Statements of Revenues, Expenses, and Changes in Fund Net Position

Format changes

The statement of revenue, expenses, and changes in fund net position should present the following information in the order shown, using the all-inclusive format indicated:

New - Statement 103 Required Presentation	Old - GASB 34 Required Presentation
Operating revenues (detailed) Total operating revenues	Operating revenues (detailed) Total operating revenues
Operating expenses (detailed) Total operating expenses	Operating expenses (detailed) Total operating expenses
Operating income or loss	Operating income or loss
Noncapital subsidies (detailed) - New section, see guidance below Total noncapital subsidies	<i>Did not exist in GASB 34</i>
Operating income (loss) and noncapital subsidies – New subtotal required	<i>Did not exist in GASB 34</i>
Other nonoperating revenues and expenses (detailed) Total other nonoperating revenues and expenses	Nonoperating revenues and expenses (detailed) Total nonoperating revenues and expenses
Income or loss before unusual or infrequent items	Income or loss before other revenues, expenses, gains, losses, and transfers
<i>Move to noncapital subsidy section or other nonoperating revenues and expense section, as applicable, except special and extraordinary items replaced with unusual or infrequent items below</i>	Capital contributions, additions to permanent and endowments, special and extraordinary items (detailed), and transfers
Unusual or infrequent items (detailed) – New, see previous page for guidance	<i>Did not exist in GASB 34 as a separate section</i>
Increase or decrease in fund net position	Increase or decrease in net position
Fund net position—beginning of period	Net position – beginning of period
Fund net position—end of period	Net position – end of period

Operating vs. nonoperating

Operating revenues and expenses include all revenues and expenses not defined as nonoperating. Nonoperating revenues and expenses include:

- a) Subsidies received and provided,
- b) Contributions to permanent and term endowments,
- c) Financing-related revenues and expenses,
- d) Resources from the disposal of capital assets and inventory, and
- e) Investment income and expenses.

However, transactions that otherwise would be classified as nonoperating should be reported as operating if they represent the proprietary fund’s principal ongoing operations. For example, interest revenues should be reported as operating by a proprietary fund established to provide loans to first-time homeowners.

Appendix A to this memo contains a flowchart to assist with new classifications.

Subsidies

Proprietary funds can be both recipients and providers of subsidies. Subsidies are defined as follows:

- a) 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.
- b) 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) the resources are recoverable through the proprietary fund's current or future pricing policies.
- c) All other transfers.

To meet the definition of a subsidy, a transaction must be nonexchange. Subsidies will generally include appropriations, some grants and contributions, and fund transfers. Subsidies are classified as either capital or noncapital. Noncapital subsidies must be reported in its own separate category on the statements as identified above (see "Format changes" on previous page). Capital subsidies should be reported with other nonoperating revenues and expenses.

The key distinction in whether a subsidy is capital or noncapital is the intent of the provider and the substance of the limitation placed on use by the provider. Based on the Statement and implementation guidance², subsidies are classified as capital subsidies if the provider of the subsidy limits the use to only capital purposes. If the subsidy can be used for multiple purposes, including both capital and noncapital, the subsidy is noncapital.

Examples of noncapital subsidies would include operating appropriations; some noncapital grants; noncapital gifts and contributions; and most fund transfers. Noncapital grants may require individual evaluation because, if the definition of noncapital subsidy is not met, the grant(s) would be reported as operating. GASB has also issued an exposure draft³ addressing certain transactions (e.g., supplemental payments to hospitals in additional standard contractual Medicaid payment, donations for scholarships, research grants, taxes, and passenger facility charges) and whether those transactions meet the definition of a subsidy.

Examples of capital subsidies include capital appropriations; capital grants, gifts, and contributions; and fund transfers restricted to only capital uses. GASB's exposure draft³ also indicates subsidies restricted for debt service on capital-related debt should be classified as capital subsidies.

Implementation considerations – categorizing transactions

Proprietary fund agencies must evaluate transactions to categorize them as (1) operating, (2) noncapital subsidy, or (3) other nonoperating. Below is guidance for common transaction types for the state's proprietary funds that will likely be affected by this Statement requiring additional consideration.

- As explained above, grants may require individual analysis to determine proper classification since these could fall into any of the three categories.

² GASB Implementation Guide No. 2025-1, Q&A 4.5 (GASB Comprehensive Implementation Guide, Q&A 7.73.11)

³ This exposure draft is NOT authoritative until approved and issued by GASB (Board) in the form of an Implementation Guide. See additional resources section at end of this memo for more information regarding this exposure draft.

- Interest on loans is an other nonoperating revenue since it is a financing-related revenue. However, for the state's revolving loan funds whose principal ongoing operation is loan financing, loan interest revenue should continue to be reported as operating.
- The interest revenue portion of a lease payment is financing-related and should be categorized as other nonoperating revenue. This does not change even if leasing is the principal ongoing operation⁴. The non-interest portion, including the revenue recognized from the deferred inflows, is operating revenue.
- Universities that are recipients of non-exchange research grants that subsidize their existing research would normally report these grants as a noncapital subsidy based on this Statement. However, if research is considered part of the principal ongoing operation, reporting that research grant as operating revenue may be appropriate even if the definition of subsidy is met. Also, exchange or exchange-like research grants would be operating revenues. GASB's exposure draft³ includes proposed guidance specifically addressing research grants and distinguishing between noncapital subsidy and operating.
- Pell Grant revenue, previously reported as nonoperating revenue, is now considered operating revenue⁵. It is not a subsidy because it does not reduce current or future tuition and fee rates for all students. Pell grants are non-exchange federal grants provided to the institution on behalf of individual students; while they reduce costs for the student recipients, they do not reduce institution's overall fee structure.

Implementation considerations – Statement of Cash Flows (SCF)

GASBS 103 does not alter the four major categories of cash flows (i.e., operating activities, noncapital financing activities, capital and related financing activities, and investing activities) reported on the SCF. However, entities with separately issued financial statements may find it beneficial to reassess the detailed classifications of specific cash flow items to ensure stronger alignment with how revenues and expenses are presented on the statement of revenue, expenses, and changes in net position.

If a transaction is reported as part of operating income in the statement of revenue, expenses, and changes in net position and in a cash flow statement category other than operating activities, the transaction should be presented as a reconciling item in the reconciliation of operating income to net cash flow from operating activities similar to how depreciation expense is currently presented.⁶

Implementation considerations - Summary of Significant Accounting Policy (SSAP) disclosure

Proprietary funds with separately issued financial statements (e.g., universities, revolving loan funds, boards and commissions, finance authorities, etc.) require updates to SSAP in the notes to the financial statements to reflect new definitions for operating and nonoperating revenues and expenses. A generic example⁷ is provided below which will require tailoring to the types of transactions in the proprietary fund(s).

⁴ GASB Implementation Guide No. 2025-1, Q&A 4.3 (GASB Comprehensive Implementation Guide, Q&A 7.73.9)

⁵ GASBS 103 amends GASB Comprehensive Implementation Guide, Q&A 7.72.10, which previously stated Pell Grants should be reported as nonoperating revenues. The revised Q&A now states proprietary funds should report Pell Grants as operating revenue.

⁶ GASB Implementation Guide No. 2025-1, Q&A 4.1 (GASB Comprehensive Implementation Guide, Q&A 2.18.3)

⁷ Source: Government Finance Officers Association (GFOA)

Proprietary funds operating and nonoperating revenues and expenses - Proprietary funds distinguish *operating* revenues and expenses from *noncapital subsidies*, and other *nonoperating* revenues and expenses. Nonoperating revenues and expenses are any (1) contributions to permanent and term endowments; (2) finance-related revenues and expenses; (3) gain and losses from disposals of capital assets and inventory; (4) investment income and expenses; and (5) subsidies received and provided. A *subsidy* represents amounts received from or provided to another party or fund of [insert your entity's name]. Amounts received from another party or fund are considered a subsidy if it is unrelated to the services provided by the proprietary fund and keeps the fees charged at the same amount or lower if the subsidy was not received. Amounts provided to the other party or fund are considered a subsidy if it is unrelated to the goods or services provided by those parties and will generally result in the proprietary charging higher fees in the future. All revenues and expenses not meeting the definitions of nonoperating revenues and expenses are reported as operating revenues and expenses.

Implementation considerations – Restatement and Change in Accounting Principle disclosure

GASBS 100, *Accounting Changes and Error Corrections*, does not require restatement of prior year amounts for the new classifications in the MD&A or statistical section unless the prior year is presented in the basic financial statements (such as comparative years). GASBS 100 does require a disclosure of the nature of the change in accounting principle, including the identification of the financial statement line items affected by the application of the new accounting principle, and identification of the new pronouncement that was implemented. A generic example⁷ is provided below for those proprietary funds with separately issued financial statements which will require tailoring to the types of transactions in the proprietary fund(s).

Note X – Change in Accounting Principle – For the fiscal year ended June 30, 2026, “the Government” implemented GASB Statement No. 103, *Financial Reporting Model Improvements*, which resulted in changes to the presentation and classification of revenues and expenses in the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position.

Financial statement line items affected by this implementation include: lease revenue, items reported as noncapital subsidies (property taxes, intergovernmental revenue, transfers in and transfers out), some items reported as other nonoperating revenues/expenses (capital contributions and transfers in), and the infrequent items (grant revenues and emergency response and clean up).

The implementation did not result in a restatement of beginning net position.

Key Provisions – Presentation of Major Component Units

Each major component unit should be presented separately in the statements of net position and activities unless doing so reduces readability (e.g., due to space constraints). If readability is compromised, combining statements for major component units should be presented within the basic financial statements following the fund financial statements. GASBS 103 eliminates the option to present condensed component unit information in the notes.

Key Provisions – Budgetary Comparison Information

Budgetary comparison schedules must be presented as required supplementary information (RSI) for the general fund and for each major special revenue fund that has a legally adopted annual budget. GASBS 103 eliminates the option to present these schedules in the basic financial statements.

The schedules must include separate columns showing variances between (a) original and final budget amounts and (b) final budget amounts and actual amounts. Explanations of significant variations between original and final budget amounts and between final budget amounts and actual results are required to be presented in notes to RSI. GASBS 103 removes a budgetary variances analysis from MD&A.

Key Provisions – Statistical Section Financial Trends

In the statistical section of separately issued financial reports, governments that engage solely in business-type activities—or in a combination of business-type and fiduciary activities—should present revenues by major source for their business-type activities in their information about changes in net position. This presentation must distinguish between operating revenues, noncapital subsidy, and other nonoperating revenues and expenses. This new presentation to the statistical section corresponds to the proprietary fund financial statement changes discussed previously.

Examples and Illustrations

Appendix C to GASBS 103, beginning on page 36 of the Statement (see p. 1 of this memo for a link to GASBS103), illustrates certain requirements of this Statement including a sample MD&A, financial statements, and note disclosures.

Additional Resources

[GASB Implementation Guide No. 2025-1](#) provides Q&As related to operating vs. nonoperating and subsidies.

On February 25, 2026, GASB released an exposure draft of a proposed implementation guide, [Financial Reporting Model Improvements—Subsidies](#), for public comments, which are due April 27, 2026. This exposure draft is not authoritative guidance and may be revised by the GASB after receiving public comments. Final guidance is expected to be issued during the third quarter of calendar year 2026.

Appendix A to this memo - GASBS 103 Flowchart to assist with operating and nonoperating classifications (source: Government Finance Officers Association)

Any questions concerning this implementation memo can be directed to Mark Rhodes at 225-342-0711 or mark.rhodes@la.gov (cc: OSRAP@la.gov).

GASB 103: Proprietary Fund Transactions Reporting

