

GASB 103: Modernizing Financial Reporting for Public Colleges and Universities

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As the fiscal year-end quickly approaches, implementation of Governmental Accounting Standards Board (GASB) Statement No. 103, "Financial Reporting Model Improvements," will significantly change financial reporting for public colleges and universities. The new standard affects the way public institutions present their information in the management discussion and analysis (MD&A), statements of revenues, expenses and changes in net position (SRECNP), as well as the required supplementary information (RSI).

This article will focus on several key provisions of the statement which aim to improve the effectiveness of financial reporting by providing more transparency, consistency and comparability among institutions.

Management Discussion and Analysis

While the new standard maintains many of the provisions of the prior GASB standard, it does provide for certain new requirements and clarifications. As dictated by the prior standard, the five sections required to be reported in the MD&A remain the same. They are:

- Overview of the financial statement
- Financial summary
- Detailed analysis of financial position and changes in financial position
- Analysis of capital activity and long-term financing
- Current known facts, decisions and conditions of events that have happened to the institution

Information in the MD&A must include information for the current year as well as the prior two years. The most notable changes to the MD&A are:

- The clarifications it requires, including the disaggregation of revenues and expenses
- Explanations of significant changes in the condensed financials
- Discussion of intangible assets and liabilities
- An explanation of economic events and trends
- Actions taken by the institutions governing those events

As the standard significantly changes the presentation of the SRECNP, organizations will have to consider their MD&A presentation; this must match the ordering of the statement.

Statement of Revenues, Expenses and Changes in Net Position

The most significant changes created by the implementation of GASB 103 will be seen in SRECNP. Changes to presentation of the statement, required sections and new definitions for nonoperating and operating activities are the most notable changes. The standard maintains the presentation of operating income and expenses but provides for a new category of noncapital subsidiaries. In addition, the category of extraordinary items has been eliminated and replaced with unusual or infrequent items.

Operating Revenues and Expenses

As established by GASB 103, paragraph 13, operating revenues and expenses are revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are:

- Subsidies received and provided
- Contributions to permanent and term endowments
- Revenues and expenses related to financing resources from the disposal of capital assets
- Inventory and investment income and expenses

These revenues and expenses will now be presented in either the noncapital subsidy section of the SRNECP or in the nonoperating revenue and expense section.

Operating revenues and expenses are those categories that do not meet the definition of a nonoperating activity. It is interesting to note that while Pell Grants were generally reported as nonoperating revenues by public institutions prior to the implementation, GASB 103 classifies Pell Grants as operating revenues because they are related to the institution's primary mission (i.e., providing education).

Thus, while the new definitions do provide a greater degree of clarity, each institution will need to evaluate whether an activity is an operating or nonoperating activity helping the organization accomplish its mission.

Subsidies

Subsidies are defined by paragraph 14 of the standard and include:

- Resources received from another party for which the institution does not provide goods or services
- Resources provided to another party for which the other party does not provide goods and services to the institution
- All other transfers

Institutions must determine if a subsidy is capital or noncapital to determine what section of the SRNECP these subsidies belong. If a subsidy can be used for both capital and noncapital purposes, it is considered noncapital and will be reported in the noncapital subsidy section. Subsidies restricted solely for capital will be reported as nonoperating income.

Unusual or Infrequent

Under the new presentation, unusual or infrequent items will be a separate section in the SRNECP after nonoperating revenues and expenses. The definition of these activities includes those that are highly abnormal, unrelated to ordinary activities and not reasonably expected to recur in the foreseeable future. It is required that inflows and outflows from these items be reported on a gross basis as a separate line item of the statement. Determining whether an event is unusual or infrequent will require management judgment.

Component Unit Presentation

GASB 103 also changes the way component units will be presented. Previously, public colleges and universities could present their major component in one of three ways: as a separate column on the financial statements, in combining schedules after the primary financial statements or as condensed financial statements in the footnotes. The new GASB requires that major components be presented as a separate column on the SRNECP. The one caveat to this requirement is that implementation is required unless it reduces the readability of the financial statement, which would then require combining statements to be presented after the primary financial statements.

Key Considerations for Implementation

For institutions presenting comparative financial statements, the implementation of the new standard will cause certain reclassifications of revenues and expenses. These changes must be reported retroactively by restating all prior period financial statements.

GASB 103 is effective for fiscal years beginning after June 15, 2025, and will significantly change certain key presentation aspects of your financial statements this year.

Contact Us

If you have questions about the implementation of GASB 103 or other issues that may impact your organization, our Higher Education team is here to help. Please contact your PKF O'Connor Davies client service team or:

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