

## **GASB 103: Turning Numbers into Digestible Narrative in Your MD&A**

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Posted on May 20, 2025



Given my chosen career, I read a lot of financial statements, and I can tell you firsthand that some are more interesting than others. While the statements alone can paint a picture, it is the story that accompanies the statements that makes them more understandable and ultimately, more useful.

The Governmental Accounting Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements*, which will go into effect for audits beginning after June 15, 2025, or if you're like many Arizona entities, that means fiscal year 2025-26.

Luckily for you, Statement 103 won't require a heavy technical accounting lift. In this statement, the GASB was focused on enhancing the effectiveness of governmental financial reporting, with a focus on improving Management's Discussion and Analysis (MD&A). Those of you who prepare ACFRs are undoubtedly familiar with the transmittal letter, and many of you often seek the assistance of your public relations team to assist in telling the story of our governmental operations. The transmittal letter talks about the amazing programs being launched, recounts success stories from prior initiatives, and provides the opportunity to toot your own horn a little.

In contrast, the MD&A is often a lackluster summary of factual changes resulting in increases or decreases in comparison to the prior year. The MD&A is intended to tell the story about the numbers in the financial statements and draw meaningful conclusions for the readers that allow them to understand the operations and the reasons for the changes in numbers year over year.

The premise of GASB 103 is that the analysis provided in MD&A should emphasize the why. That is to say, the MD&A should provide the readers of the financial statements objective and easily readable analysis that avoids unnecessary duplication and avoids "boilerplate" discussions. GASB concluded that after the implementation of this new statement, the quality of the analysis of changes from the prior year would enhance the relevance of the information.

The MD&A should be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting. The use of charts, graphs, and tables is encouraged to help make information more digestible for non-

accountants. In other words, governments should strongly consider how to create a compelling narrative that tells the story of what happened financially over the past year.

While the MD&A is still limited to the following 5 sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions or Conditions, greater emphasis should be taken to ensure your MD&A does not sound like your neighbor government's MD&A. The government should do a better job with the analysis. For example, a government should not explain only that transportation expenditures increased, but explain why. Maybe there was an increase in service demand or an expansion of service area, or perhaps particular costs were more expensive than in prior years. Those types of explanations really help a reader understand the context for the numerical change.

Some key takeaways to help implement this portion of standard – do not wait until the last minute. Consider maintaining a list of initiatives in your audit or budget file so you aren't struggling to remember a year of activity at the last minute. Set aside time to think about the financial performance as a whole on a monthly or quarterly basis to allow for more thoughtful analysis. Take notes throughout the year from governing body meetings. Consult with others outside the accounting office and consider using plain language instead of technical accounting terms.

Compared to the heavily technical GASB pronouncements of the past few years, the MD&A changes in GASB 103 should be a welcome reprieve. Keep in mind that this article only discusses the MD&A portion of GASB 103 requirements, so read the entire statement to ensure complete and proper implementation, which can be found at [www.gasb.org](http://www.gasb.org).

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