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Governmental Accounting Standards Series

Statement No. 14 of the Governmental Accounting Standards Board

The Financial Reporting Entity

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body *and* either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. To accomplish this goal, the financial statements should generally communicate information about the

component units and their relationships with the primary government rather than create the perception that the primary government and all of its component units are one legal entity.

Most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in one or more columns separate from the financial data of the primary government. Certain information should be disclosed about each major component unit included in the component units column. The required information may be presented by using more than one column in the general purpose financial statements (GPFS) for the component units and either including appropriate combining statements for the discretely presented component units in the reporting entity's GPFS or presenting appropriate condensed financial statements of the discretely presented component units in the notes to the reporting entity's financial statements.

Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending.

The notes to the reporting entity's financial statements should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units. The reporting entity's financial statements should make those component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. The notes to the financial statements also should include a brief description of the component units and their relationships to the primary government as well as information about how the separate financial statements of individual component units may be obtained.

This Statement also requires certain disclosures about the entity's relationships with organizations other than component units, including related organizations, joint ventures, jointly governed organizations, and component units of another government with characteristics of a joint venture or jointly governed organization. This Statement also provides financial statement display requirements for joint ventures in which the participating government has an equity interest.

This Statement is effective for financial statements for periods beginning after December 15, 1992. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. Paragraph 9 discusses the applicability of this Statement.

Statement No. 14 of the
Governmental Accounting
Standards Board

The Financial Reporting Entity

June 1991

Governmental Accounting Standards Board
of the Financial Accounting Foundation
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The Financial Reporting Entity

June 1991

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INTRODUCTION AND BACKGROUND INFORMATION

Scope of This Statement

1. This Statement establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It supersedes the standards established by National Council on Governmental Accounting (NCGA) Statement 3, *Defining the Governmental Reporting Entity;* NCGA Statement 7, *Financial Reporting for Component Units within the Governmental Reporting Entity;* and NCGA Interpretation 7, *Clarification as to the Application of the Criteria in NCGA Statement 3,* "*Defining the Governmental Reporting Entity."* Those standards are generally included in the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (May 31, 1990), Section 2100, "Defining the Reporting Entity"; Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure"; and Section J50, "Joint Ventures."[1] In addition, this Statement amends all disclosure requirements in the Codification that relate to reporting by the "entity as a whole."

Background

2. GASB Concepts Statement No. 1, *Objectives of Financial Reporting,* states that "accountability is the cornerstone of all financial reporting in government" and "financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society" (also cited in Codification Section 100, paragraph .156). It follows that an *accountability* perspective should provide the basis for defining the financial reporting entity. Financial reporting based on accountability should enable the financial statement reader to focus on the body of organizations that are related by a common thread of accountability to the constituent citizenry.

[1]Further references to the Codification are abbreviated. For example, Section 2100, paragraph .103, would be Cod. Sec. 2100.103.

3. The organizational structure of many governments has become increasingly complex. The demands placed on governments to provide services may outpace their legal, financial, or administrative ability to provide those services within the traditional framework of general purpose government. For this reason and others, many governments have created separate organizations. Whatever the reason for creation of those "separate" organizations, comprehensive financial reporting from a public accountability perspective requires determining which of these organizations should be included as part of a financial reporting entity.

4. Sometimes separate organizations are created because it is believed that debt backed by the revenue-generating capacity of a specific facility will be better accepted in the capital markets or because of the perceived greater efficiency of a separate corporate-style structure. In a separate organization, governing board and management efforts can be focused on one specific function instead of the myriad services often overseen by the management of a general purpose government.

5. Some state statutes or municipal corporate charters may specify the services to be provided or the functions to be performed by an individual local government. Instead of revising the charter or changing the statutes when there is a need to provide additional services to citizens, some local governments take advantage of other legal provisions that enable them to create separate organizations to provide the additional services that may not have been envisioned when the charter or statute was written.

6. In some instances, separate organizations have been created to overcome constitutional or statutory limitations on the issuance of debt. For example, separate financing corporations have been created by some governments to issue debt on the government's behalf that otherwise might not have been issued directly by the government because of limitations on the issuance of debt.

7. Many public authorities and special districts have a legal, financial, or administrative autonomy that departments and agencies may not have within the general government's organizational framework. Legal autonomy derives from the organization's corporate powers, including the ability to buy, sell, lease, and mortgage property in its own name and the power to sue and be sued without recourse to the state or municipality itself. Financial autonomy is manifested in an organization's capacity to support itself from

revenues generated from separate taxes, fees, and charges to the consumers of its goods or services. Administrative autonomy means freedom from some of the administrative controls over government programs and operations, such as civil service regulations and pay scales; central budgetary controls; regulations on contracting, purchasing, and rate setting; and the controls imposed by "pre-audits" often required of government agencies and departments.

8. Despite the outward appearance of autonomy, or separateness, these organizations customarily are administered by governing bodies that have been appointed by the elected officials of a primary government or by the primary government's officials serving ex officio. A primary government's officials are elected by the citizenry to serve as their representatives to promote the public health, safety, morals, education, general welfare, security, prosperity, and contentment of the citizens within its jurisdiction. Thus, the elected officials are accountable to those citizens for their public policy decisions, regardless of whether those decisions are carried out directly by the elected officials through the operations of the primary government or by their designees through the operations of specially created organizations. This broad-based notion of accountability by elected officials leads to the underlying concept of the governmental financial reporting entity: Governmental organizations are responsible to elected governing officials at the federal, state, or local level; therefore, financial reporting by a state or local government should report the elected officials' accountability for those organizations.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Applicability of This Statement

9. The requirements of this Statement apply at all levels to all state and local governments. The Statement applies to financial reporting by **primary governments**,[2] governmental **joint ventures**, **jointly governed organizations,** and **other stand-alone governments**; and it applies to the separately issued financial statements of governmental **component units.** This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. In addition, this Statement should be applied to all governmental and nongovernmental component units when they are included in a governmental **financial reporting entity**. (See paragraphs 12, 43, 65, and 66 for an explanation of how organizations other than primary governments should apply this Statement.)

The Financial Reporting Entity Concept

10. The concept underlying the definition of the financial reporting entity is that elected officials are **accountable** to their constituents for their actions. Because one of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of those elected officials, the definition of the financial reporting entity should be based on accountability. Because providing public services is, ultimately, the responsibility of elected officials, all governmental organizations are responsible to elected officials at the federal, state, or local level. Financial reporting by a state or local government should report the elected officials' accountability for those organizations.

11. The financial statements of the reporting entity should allow users to distinguish between the primary government and its component units by communicating information about the component units and their relationships with the primary government rather than creating the perception that the primary government and all of its component units are one legal entity. To accomplish this goal, the reporting entity's financial statements should

[2]Terms defined in Appendix B, "Glossary," are printed in **boldface type** the first time they are used.

present the fund types and account groups of the primary government (including its **blended** component units, which are, in substance, part of the primary government) and provide an overview of the **discretely presented** component units.

Definition of the Financial Reporting Entity

12. As discussed in detail below, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is **financially accountable** (see paragraphs 21–37), and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (see paragraphs 39–41). The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or another stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. Although this Statement is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of governmental component units, joint ventures, jointly governed organizations, and other stand-alone governments. These organizations should apply the provisions of this Statement as if they were a primary government.

Primary Governments

Definition of a Primary Government

13. The foundation of a primary government is a separately elected governing body—one that is elected by the citizens in a general, popular election. As the nucleus of the financial reporting entity, the primary government generally is the focal point for the users of the financial statements. Thus, it is important to define the primary government and determine what it comprises. A primary government is any state government or general purpose local government (municipality or county). A primary government is also a special-purpose government (for example, a school district or a park district) that meets all of the following criteria:

a. It has a separately elected governing body.
b. It is **legally separate** (see paragraph 15).

c. It is **fiscally independent** of other state and local governments (see paragraphs 16-18).

14. *A primary government consists of all the organizations that make up its legal entity.* All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government.

Determining Separate Legal Standing

15. An organization has separate legal standing if it is created as a body corporate or a body corporate and politic, or if it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government. Generally, corporate powers give an organization the capacity to have a name; the right to sue and be sued in its own name without recourse to a state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name. The corporate powers granted to a separate organization are enumerated in its corporate charter or in the legislation authorizing its creation. A special-purpose government (or any other organization) that is *not* legally separate should be considered, for financial reporting purposes, part of the primary government that holds the corporate powers.

Determining Fiscal Independence or Dependence

16. A special-purpose government is fiscally independent if it has the ability to complete certain essential fiscal events without substantive approval by a primary government.[3] A special-purpose government is fiscally independent if it has the authority to do all three of the following:

a. Determine its budget without another government's having the authority to approve and modify that budget.
b. Levy taxes or set rates or charges without approval by another government.
c. Issue bonded debt without approval by another government.

[3]There may be instances in which a primary government is temporarily placed under the fiscal control of another government; for example, a state may obtain direct, temporary fiscal oversight over a school district. A primary government that is temporarily under the fiscal control of another government continues to be fiscally independent for purposes of this Statement.

A special-purpose government that is not fiscally independent is **fiscally dependent** on the primary government that holds one or more of those powers. A special-purpose government may be fiscally dependent on another state or local government regardless of whether it receives *financial* assistance from that state or local government; fiscal dependency does not necessarily imply that a **financial benefit** or **burden** relationship exists.

17. In determining whether a special-purpose government is fiscally independent, a distinction should be made between substantive approvals and ministerial (or compliance) approvals. Special-purpose governments typically are subject to the general oversight of their respective state governments, and sometimes to the oversight of county or other local governments as well. Often, this general oversight responsibility includes an approval process that is more ministerial or compliance oriented than substantive. Examples of approvals that are likely to be ministerial or compliance oriented in nature rather than substantive are:

a. A requirement for a state agency to approve local government debt after review for compliance with certain limitations, such as a debt margin calculation based on a percentage of assessed valuation.
b. A requirement for a state agency, such as a department of education, to review a local government's budget in evaluating qualifications for state funding.
c. A requirement for a county government official, such as the county clerk, to approve tax rates and levy amounts after review for compliance with tax rate and levy limitations.

18. A special-purpose government subject to substantive approvals should not be considered a primary government for purposes of this Statement. For example, budgetary approval is substantive if a government has the authority to reduce or modify a special-purpose government's budget. On the other hand, a special-purpose government that is *statutorily prohibited* from incurring debt may be fiscally independent if it possesses the other two powers because the statutory prohibition does not subordinate the special-purpose government to another government for debt approval. It may be necessary to ascertain whether approvals or restrictions have the effect of impairing the special-purpose government's fiscal independence.

Reporting the Primary Government

19. The financial data of the primary government (and its blended component units as discussed in paragraphs 52-54) should be reported in accordance with the provisions of Codification Section 2200, "Comprehensive Annual Financial Report." This Statement does not modify fund reporting requirements referred to in that section. Regardless of entity considerations, a primary government should report its fiduciary funds according to Cod. Sec. 2200.106 and .111. For example, there may be organizations that do not meet the definition for inclusion in the financial reporting entity. They should, nevertheless, be reported as a fiduciary fund of the primary government if the primary government has a fiduciary responsibility for them. The financial data of governmental colleges and universities that are considered to be part of the primary government and that apply the provisions of the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities* (AICPA College Guide), should be included within the financial data of the primary government but may be presented separately from the fund types of the primary government. Rather than be reclassified and reported within the primary government's funds and account groups, the institution's balance sheet may be reported in a column separate from the fund types of the primary government, and its statement of changes in fund balances and statement of current funds revenues, expenditures, and other changes may also be presented in separate statements.

Component Units

Definition of Component Units

20. Component units are legally separate organizations[4] for which the elected officials of the primary government are financially accountable (as discussed in paragraphs 21–37). In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (as discussed in paragraphs 39–41).

[4]A component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph 13), a nonprofit corporation, or a for-profit corporation.

Financial Accountability

21. Accountability flows from the notion that individuals are obliged to account for their acts, including the acts of the officials they **appoint** to operate governmental agencies. Thus, elected officials are accountable for an organization if they appoint a voting majority of the organization's governing board. Sometimes, however, appointments are not substantive; other governments (usually at a lower level) may have oversight responsibility for those officials. This Statement uses the term *financial accountability*, rather than *accountability*, to describe the kind of relationship warranting the inclusion of a legally separate organization in the reporting entity of another government. The following circumstances set forth a primary government's financial accountability for a legally separate organization.

a. The primary government is financially accountable if it appoints a voting majority of the organization's governing body[5] *and* (1) it is able to **impose its will** on that organization (paragraphs 25–26) *or* (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government (paragraphs 27–33).
b. The primary government may be financially accountable if an organization is fiscally dependent (paragraphs 16–18) on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board (paragraphs 34–38).

Appointment of a Voting Majority

22. If a primary government appoints a simple majority of the organization's governing board, it usually has a voting majority. However, if financial decisions require the approval of more than a simple majority, the primary government is not accountable for the organization.

23. For purposes of determining whether accountability exists, a primary government's appointment authority should be substantive. In some cases the appointment authority of a primary government's officials may be limited by a nomination process. For example, state statutes or local ordinances may require a primary government to select its appointees

[5]This also includes situations in which a voting majority of an organization's governing body consists of the primary government's officials serving as required by law (and, thus, technically not appointed by the primary government).

from a slate of candidates provided by one or more individuals or groups other than the primary government's officials or appointees. A primary government's appointment authority is not substantive if the number of candidates is severely limited by the nominating process, for example, if a primary government must select three appointees from a single slate of five candidates. Additionally, a primary government's appointment authority may not be substantive if its responsibility is limited to confirming appointments made by individuals or groups other than the primary government's officials or appointees.

24. In most instances, legal provisions for appointment of an organization's officials also provide for continuing appointment authority. However, in the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability. Thus, a primary government that creates an organization (creation is tantamount to the initial appointment of the governing body) is accountable for the organization if the primary government can unilaterally abolish it. A primary government is considered to be accountable for an organization as long as continuing appointments are made by the primary government, even if those appointments are made by a subsequent administration.

Imposition of Will

25. A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently has the ability to affect that organization's operations. Sometimes, however, based on the provisions of law or contract, the primary government has little influence over the organization's operations. Certain conditions indicate the primary government's ability to affect the day-to-day operations of an organization. These conditions are referred to in this Statement as a government's ability to impose its will on an organization. If a primary government appoints a voting majority of an organization's officials *and* has the ability to impose its will on the organization, the primary government is financially accountable for that organization.

26. *A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.* The existence of *any one* of the following conditions

clearly indicates that a primary government has the ability to impose its will on an organization:

a. The ability to remove appointed members of the organization's governing board at will.
b. The ability to modify or approve the budget of the organization.
c. The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
d. The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.
e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

Other conditions may also indicate that a primary government has the ability to impose its will on an organization. In determining whether imposition of will exists, a distinction should be made between substantive approvals and ministerial (or compliance) approvals as discussed in paragraphs 17 and 18.

Financial Benefit to or Burden on a Primary Government

27. An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials *and* there is a potential for that organization either to provide specific financial benefits to or to impose specific financial burdens on the primary government, the primary government is financially accountable for that organization. An organization has a financial benefit or burden relationship with the primary government if *any one* of these conditions exists:

a. The primary government is legally entitled to or can otherwise access the organization's resources.
b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
c. The primary government is obligated in some manner for the debt of the organization.

Exchange transactions between organizations and the primary government should not be considered manifestations of a financial benefit or burden relationship. In an exchange transaction, such as a purchase or sale of goods or services, each participant (the government or its employees rather than the citizenry) directly receives and sacrifices value. For example, funding by a primary government for higher education is *not* equivalent to purchasing educational services and would be considered a manifestation of a financial burden on the primary government.

28. The effect of the financial benefits or burdens on the primary government can be either direct or indirect. A direct financial benefit or burden occurs when the primary government itself is entitled to the resources or is obligated for the deficits or debts of the organization. An indirect benefit or burden exists if one or more of the primary government's component units is entitled to the resources or is obligated for the deficits or debts of the organization. For purposes of this Statement, a financial benefit or burden relationship exists if the primary government is either directly or indirectly entitled to the resources or is either directly or indirectly obligated for the deficits or debts of an organization.

29. *Legally Entitled to or Can Otherwise Access the Organization's Resources.* The *ability* to access the resources of an organization—not necessarily whether there was an actual transaction during the period—is the important factor for determining when a primary government is entitled to an organization's resources. However, the ability to access the resources of an organization should be judged in light of the organization as a going concern; that is, a residual interest in the net assets of an organization in the event of dissolution is not equivalent to being entitled to its resources. If a primary government appoints a voting majority of an organization's officials *and* is legally entitled to or can otherwise access the organization's resources, the primary government is financially accountable for that organization.

30. Resources may flow from a component unit to a primary government for several reasons. Some organizations may operate activities, such as off-track betting or lotteries, for the principal purpose of generating net revenues that are accessible to the primary government. These organizations provide financial benefits to the primary government. Other organizations may operate activities (for example, public utilities) for the purpose of providing basic public services and charge rates sufficiently high to also provide a financial benefit to the primary government. These benefits may be characterized as

"payments in lieu of taxes" or "contributions," or they may simply be amounts remitted on request of the primary government. These organizations also provide financial benefits to the primary government.

31. *Legally Obligated or Has Otherwise Assumed the Obligation to Finance the Deficits of, or Provide Financial Support to, the Organization.* A primary government may be obligated to finance the deficits of, or provide financial support to, an organization in different ways. It could be legally obligated to do so, or it may choose to do so for a variety of reasons. If a primary government appoints a voting majority of an organization's officials *and* is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, that organization, the primary government is financially accountable for that organization. The following are examples of financial burdens assumed by a primary government in support of certain organizations:

a. Some organizations provide public services financed by user charges that are not expected to be sufficient to sustain their operations. This situation often results from providing services such as mass transit, higher education, and healthcare. In these cases, public policy may dictate that a state or local government provide financial support to the organization to increase the availability and affordability of the service to a broader segment of the citizenry. Examples of support include annual appropriations to help meet operating expenditures/expenses, periodic capital grants, and direct payment of capital expenditures or debt service.
b. A primary government may assume an obligation to finance the deficits of an organization. These deficits may or may not be expected to recur annually. A financial burden exists if the primary government is obligated to finance an organization's deficits even though there has not been, and may never be, a deficit to subsidize.

32. Some organizations' operations are fully or partially funded by revenues generated through tax increment financing. Legally separate development or redevelopment authorities sometimes receive the incremental taxes that result from a tax increment financing arrangement. When this is done, *a taxing government temporarily waives its right to receive the incremental taxes from its own levy.* The incremental taxes instead are remitted to the separate organization. For purposes of this Statement, this type of tax increment financing should be considered evidence of an obligation to provide financial support to an organization (a financial burden), regardless of whether the primary government collects the taxes and remits them to the organization or the incremental taxes are paid directly to the organization.

33. *Obligated in Some Manner for the Debt of an Organization.* An obligation for the debt of an organization is similar to the notion that a primary government may be obligated for future operating deficits. The obligation can be either expressed or implied. A primary government is obligated in some manner for the debt of an organization if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) it *may* take certain actions to assume secondary liability for all or part of the debt, *and* the government takes, or has given indications that it will take, those actions. Conditions that indicate that a primary government is obligated in some manner include:

a. The primary government is *legally obligated* to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
b. The primary government is *required* to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
c. The primary government is *required* to provide funding for reserves maintained by the debtor organization, or to establish its own reserve or guarantee fund for the debt.
d. The primary government is *authorized* to provide funding for reserves maintained by the debtor organization or to establish its own reserve or guarantee fund *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
e. The primary government is *authorized* to provide financing for a fund maintained by the debtor organization for the purpose of purchasing or redeeming the organization's debt, or to establish a similar fund of its own, *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
f. The debtor government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the primary government *may* cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a law that authorizes the primary government to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the organization.
g. Legal decisions within the state or previous actions by the primary government related to actual or potential defaults on another organization's debt make it *probable* that the primary government will assume responsibility for the debt in the event of default.

If a primary government appoints a voting majority of an organization's officials *and* is obligated in some manner for the debt of that organization, the primary government is financially accountable for that organization.

Financial Accountability as a Result of Fiscal Dependency

34. A primary government may be financially accountable for a fiscally dependent government regardless of whether the fiscally dependent government has a separately elected governing board, a board appointed by another government, or a jointly appointed board. Paragraphs 16–18 provide the criteria for determining fiscal independence or dependence.

35. *Special-Purpose Governments with Separately Elected Governing Boards.* Many special-purpose governments have separately elected governing boards. Some are fiscally independent, and others are fiscally dependent on another government. For example, many local school boards are separately elected. However, a local general purpose government may approve the school board's budgets and levy a property tax for the school district. These school districts (sometimes called "dependent school districts") should be reported as component units of the primary government on which they are fiscally dependent.

36. *Governmental Organizations with Boards Appointed by Another Government.* Governmental organizations may be fiscally dependent on a local government even when their governing boards are *appointed by a higher level of government.* For example, local school boards in some jurisdictions may be appointed by state officials, but the responsibility for approving the school boards' budgets, authorizing the issuance of debt, and levying their property taxes may be vested in the local general purpose governments (cities or counties) where the school boards are located. As discussed in paragraph 38, these school boards usually would be included in the local government's financial reporting entity because of their *fiscal dependency* on the local government even though the local government does not appoint any members of the school district's governing board.

37. *Governmental Organizations with Jointly Appointed Boards.* In some states there may be governmental organizations, such as port authorities, transportation authorities, river authorities, and other regional governments, that are governed by boards that are

appointed by officials of more than one government (for example, a group of local governments, or a state and certain local governments), but none appoints a voting majority. If, however, a governmental organization is fiscally dependent on only one of the appointing governments (for example, a port authority may not be empowered to issue debt without substantive state approval), it should be included as a component unit of that government.

Potential for Dual Inclusion

38. In some instances, the financial accountability criteria of paragraph 21a indicate that an organization is a component unit of a particular primary government. However, that organization may also be fiscally dependent on another state or local government (as discussed in paragraphs 16–18). In these situations, the organization meets the benchmark for inclusion in more than one reporting entity. However, an organization should be included as a component unit of only one reporting entity. For example, state governments, in particular, mandate functions to be performed by local governments and provide financial aid for a portion of the expenditures. Elementary and secondary education typically is financed through a combination of local taxation and state aid distributed in accordance with legislatively established formulas. In most such instances, the entity status of a school district will be readily apparent as either a primary government or a component unit of a local government because either its governing board is separately elected or a voting majority is appointed by the local government. In some instances, however, school district governing boards are appointed by state officials, and the state may appear to be financially accountable for the district because of the state aid distribution. Judgment needs to be exercised as to whether the district should be considered a component unit of the state or of a local government. Usually, fiscal dependency on a local government, not the financial burden on the state created by legislatively established aid distribution formulas, should govern in determining the appropriate reporting entity of such school districts.

Organizations Included in the Reporting Entity Although the Primary Government Is Not Financially Accountable

39. Paragraph 12(c) requires that certain organizations should be included as component units if the nature and significance of their relationship with the primary governments are

such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading.

40. In some states, authorities with state-appointed boards may be created to provide temporary fiscal assistance to a local government to alleviate that local government's fiscal distress. The authority should be evaluated as a potential component unit of the local government. If the authority issues debt on behalf of the local government and serves as a conduit for receiving dedicated revenues of the local government that are designated for repayment of the debt, the nature and significance of the relationship between the authority and the local government would warrant including the authority as a component unit of the local government. The temporary nature of the state-created authority emphasizes that the debt and revenues are, in substance, the debt and revenues of the local government.

41. In addition, other organizations should be evaluated as potential component units if they are closely related to the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion. Organizations affiliated with governmental units, agencies, colleges, universities, hospitals, and other entities may warrant inclusion. An example of an affiliated organization that may be evaluated for inclusion is a nonprofit corporation whose purpose is to benefit a governmental university by soliciting contributions and managing those funds. There may also be circumstances warranting inclusion of a single-employer defined-benefit public employee retirement system (PERS) that does not meet the criteria for inclusion in paragraph 21 in the financial reporting entity. The GASB is studying circumstances under which foundations, similarly affiliated organizations, and PERS might be included in the financial reporting entity. Appropriate pronouncements will be issued at a later date.

Reporting Component Units

42. Financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, some component units should be blended as though they are part of the primary government; however, most component units should be discretely presented.

43. An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated into a reporting entity's financial statements should include the data from all of its component units. In effect, this Statement should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. For example, a school district may be a component unit of a municipality because the municipality appoints the governing board of the district and the district imposes a financial burden on the municipality. If the school district is financially accountable for another organization (a building authority, for example), the district should apply the definition and display provisions of this Statement to the building authority. The municipality should apply the definition and display provisions of this Statement to the school district's "entity," which includes the building authority. The building authority is not a component unit of the municipality per se; however, its financial data would be included in the primary government's financial reporting entity as a part of the school district.

Discrete Presentation of Component Units

44. As noted in paragraph 42, most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in a column(s) separate from the financial data of the primary government. The reporting entity's combined balance sheet should include one or more columns to display the combined balance sheets of the discretely presented component units. A single column may be used regardless of whether the component units use governmental or proprietary fund accounting or the AICPA College Guide. If a single column is used, equity of the component units may be presented using the same descriptions that are used to display the elements of the primary government's equity; or it may be aggregated into other classifications (for example, "Fund balance—governmental component units," "Retained earnings—proprietary component units," or simply on a single line such as "Equity—component units"). The discrete column(s) should be located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings.

45. The reporting entity's combined statement of revenues, expenditures, and changes in fund balance—governmental funds should include one or more columns to display the revenues, expenditures, and changes in fund balances for discretely presented component units that use governmental fund accounting. The column(s) should be located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings.

46. Discrete presentation of component units that use proprietary fund accounting should be the same as the display method above (for governmental funds) for both the combined statement of revenues, expenses, and changes in retained earnings/fund balances or fund equity and the combined statement of cash flows.

47. If a component unit uses both governmental and proprietary methods of accounting,[6] its operations may be included in a discrete column on the most appropriate operating statement (based on the component unit's principal activities), or the component unit can be disaggregated and reported in the component units column(s) on the applicable operating statements. When the single operating statement approach is used, the results of operations using the other method of accounting should be reduced to a single amount and presented as a separate line item, such as "Net income from proprietary operations" or "Excess of revenues over expenditures from governmental operations."

48. Reporting entity financial statements for discretely presented component units that use the AICPA College Guide should include a statement of changes in fund balances and a statement of current funds revenues, expenditures, and other changes. These statements should be presented in the format described in paragraph 45 if the reporting entity includes institutions that are component units and institutions that are part of the primary government's legal entity. (See paragraph 19.) The discrete column(s) should be located to the right of the financial data of the primary government's institutions. A distinction should be made between the financial data of the primary government's institutions and the data of the discretely presented institutions by providing descriptive column headings.

[6]The provisions of this paragraph would be similarly applied to component units that use either (or both) governmental or proprietary fund accounting and also to college and university operations using the AICPA College Guide.

49. If the reporting entity chooses to provide a total column for the primary government (including its blended component units), the column should be labeled "memorandum only." Likewise, if the reporting entity's combined statements include a total column for the reporting entity as a whole, it also should be labeled "memorandum only." The component units column(s) should not be labeled "memorandum only." In addition, if the entity provides a total column for the entity as a whole, a total column for the primary government should be presented, consistent with the notion in paragraph 13 that the primary government is the focal point for the users of financial statements.

50. Combining financial statements for discretely presented component units should be included in the reporting entity's comprehensive annual financial report (CAFR) using the same methodology as combining (and individual fund) statements of the fund types of the primary government. (See Cod. Sec. 2200.105 and .106.) The data presented for each component unit in the combining statements generally should be its aggregated totals. Presentation of the underlying fund types of the individual component units is not required unless such information is not available in separately issued financial statements of the component unit. If the entity chooses to present more than one column for the discretely presented component units (for example, separate columns for component units that use governmental fund accounting and those that use proprietary fund accounting), separate combining statements should be presented for each column in the combined statements.

Individual Component Unit Disclosures

51. Certain information should be disclosed about each major component unit included in the component units column(s) in the general purpose financial statements (GPFS). In determining which component units are "major," consideration should be given to each component unit's significance relative to the other component units and the nature and significance of its relationship to the primary government. The required information may be presented either (a) by including the combining statements required in paragraph 50 in the reporting entity's GPFS or (b) by presenting condensed financial statements in the notes to the reporting entity's financial statements. If the condensed financial statement disclosure approach is taken, at a minimum, the following details should be separately presented.

Condensed balance sheet:

a. Current assets. (Amounts due from the primary government and other component units should be separately identified.)
b. Property, plant, and equipment (including general fixed assets).
c. Amounts to be provided (and available) for the retirement of general long-term debt.
d. Current liabilities. (Amounts due to the primary government and other component units should be separately identified.)
e. Bonds and other long-term liabilities outstanding. (Amounts due to the primary government and other component units should be separately identified.)

Condensed statements of revenues, expenses, and changes in equity for component units that use proprietary fund accounting:

a. Operating revenues (total revenues from sales of goods or services). (Sales to the primary government and other component units should be separately identified.)
b. Operating expenses. (Depreciation, depletion, and amortization expense should be separately identified.)
c. Operating income or loss (operating revenues less operating expenses).
d. Operating grants, entitlements, and shared revenues.
e. Transfers to/from the primary government and other component units.
f. Tax revenues.
g. Net income or loss (total revenues less total expenses).
h. Current capital contributions.

Condensed statements of revenues, expenditures, and changes in fund balances for component units that use governmental fund accounting:

a. Revenues.
b. Current expenditures.
c. Capital outlay expenditures.
d. Debt service expenditures.
e. Transfers to/from the primary government and other component units.
f. Excess (deficiency) of revenues and expenditures.

Information for all nonmajor discretely presented component units should be presented in the aggregate. If the entity presents a separate column in the GPFS for each component unit, these disclosures (and the combining statements in paragraph 50) are not required.

Blending Component Units

52. Even though it is desirable for users to be able to distinguish between the primary government and its component units, there are nevertheless some component units that, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government.

These component units should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending.

53. A component unit should be included in the reporting entity financial statements using the blending method in either of these circumstances:

a. The component unit's governing body is substantively the same as the governing body of the primary government.[7]
b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The essence of this type of arrangement is much the same as an internal service fund—the goods or services are provided to the government itself rather than to the citizenry. Usually the services provided by a blended component unit are financing services provided solely to the primary government. For example, a building authority may be created to finance the construction of office buildings for the primary government. However, a component unit that provides services to more than just the primary government should also be blended if the services provided to others are insignificant to the overall activities of the component unit. Other component units that should be blended are those that exclusively, or almost exclusively, benefit the primary government by providing services indirectly. For example, a component unit established by a primary government to administer its employee benefit programs exclusively benefits the primary government even though it provides services to the employees rather than directly to the primary government itself.

54. Some component units account for their activities in a single fund; others use all or several fund types and account groups. If a component unit is blended, the fund types and account groups of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. However, because the primary government's general fund is usually the main operating fund of the reporting entity and often is a focal point for report users, its

[7]"Substantively the same" means sufficient representation of the primary government's entire governing body on the component unit's governing body to allow complete control of the component unit's activities. To illustrate, the board of a city redevelopment authority may be composed entirely of the city council and the mayor, serving ex officio. The primary government is, essentially, serving as the governing body of the component unit. On the other hand, the board of a public housing authority composed of the city mayor and two council members (from a total of ten) ordinarily would not be substantively the same as the city's governing body. This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.

general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be reported as a special revenue fund.

Investments in For-Profit Corporations

55. If a government owns a majority of the voting stock of a for-profit corporation, the government's intent for owning the stock should determine whether the corporation is presented as a component unit or an investment of the primary government. For example, a government that purchases 100 percent of the stock of a concrete plant to provide a controlled source of concrete for its capital projects should report the concrete company as a component unit. The intent of the government in obtaining the company is to directly enhance its ability to provide governmental services. On the other hand, a government that purchases stock of a corporation as an investment rather than to directly aid in the provision of governmental services should report the stock as an investment.

Budgetary Presentations

56. Codification Section 1900, "Financial Reporting," requires presentation in the GPFS of a combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted). The minimum budget-basis presentation within the GPFS of a reporting entity is the aggregation by fund type of the appropriated budgets for those funds, as amended, compared with related actual amounts. For purposes of this presentation, the appropriated budgets are those adopted by the legislative or governing board of the primary government (and its component units that have been blended and are, as a result, reported as part of the primary government). Budgetary data for the discretely presented component units are not required to be presented in the reporting entity's combined statement of revenues, expenditures, and changes in fund balances—budget and actual.

Intra-Entity Transactions and Balances

57. Some transactions and balances between a primary government and its component units (and among the component units) may need to be reclassified for presentation in the reporting entity's financial statements. Transfers between the primary government and its blended component units (and among the blended component units) should be reported as

required by Codification Section 1800, "Classification and Terminology," paragraphs .102–.107, for interfund transfers. Similarly, receivables and payables between the primary government and its blended component units should be reported as amounts due to and due from other funds. Balances and transfers between the primary government and component units that are discretely presented (and among those component units) should be reported in accordance with Cod. Sec. 1800.102–.107, except that the amounts of the balances and transfers (due to/from and transfers to/from component units) should be reported separately from interfund balances and transfers (due to/from and transfers to/from other funds).[8]

58. Capital lease arrangements between the primary government and blended component units (or between blended component units) should not be reported as capital leases in the financial reporting entity's financial statements. Instead, the lease arrangement should be reported in accordance with Codification Section L20, "Leases," paragraph .126. The debt and assets of the blended component unit should be reported as a form of the primary government's debt and assets. For example, the leased general fixed assets would be reported in the General Fixed Assets Account Group (GFAAG) and related debt would be reported in the General Long-Term Debt Account Group (GLTDAG). The debt service activity of the blended component unit would be reported as a debt service activity of the primary government. If the blended component unit has a general fund, it would be included as a special revenue fund of the primary government. Capital lease arrangements between the primary government and discretely presented component units (or between those component units) should be reported as discussed in Cod. Sec. L20.127. Related receivables and payables should be reported separately from other amounts due to or due from component units and separately from capital lease receivables and payables from organizations outside the reporting entity. To avoid double counting of assets and liabilities resulting from capital lease arrangements, eliminations may be made in accordance with Cod. Sec. 2200.108.

[8]Although Codification Section 1300, "Fund Accounting," paragraph .110, allows current amounts due to and due from the *same* funds to be offset and the net amounts shown in the respective fund balance sheets, this right of offset may not be enforceable at law for the legally separate *component units.* Therefore, the option to offset may be exercised only if there is a legal right to offset.

Reporting Periods

59. The primary government and its component units may have identical or different fiscal year-ends. A common fiscal year-end for the primary government and all component units is encouraged. The advantages and disadvantages of a common fiscal year-end should be considered when determining the practicality of making such a requirement. If it is determined that a common fiscal year-end is impractical, the reporting entity (which reports using the primary government's fiscal year) should incorporate financial statements for the component unit's fiscal year ending during the reporting entity's fiscal year. If the component unit's fiscal year ends within the first quarter of the reporting entity's subsequent fiscal year, it is acceptable to incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity's fiscal period. Of course, this should be done only if timely and accurate presentation of the financial statements of the reporting entity is not adversely affected.

60. If transactions between component units that have different fiscal years result in inconsistencies in amounts reported as due to or due from, transfer to or transfer from, and so forth, the nature and amount of those transactions should be disclosed in the notes to the financial statements. The fiscal year of the component units included in the reporting entity should be consistent from year to year, and changes in fiscal years should be disclosed.

Note Disclosures

61. The notes to the reporting entity's financial statements should include a brief description of the component units of the financial reporting entity and their relationships to the primary government. This disclosure should include a discussion of the criteria for including the component units in the financial reporting entity and how the component units are reported. The notes should also include information about how the separate financial statements for the individual component units may be obtained.

Focus of the Reporting Entity's Note Disclosures and Required Supplementary Information

62. One of the key aspects of the reporting entity concept is that users should be able to distinguish between the primary government and its component units. Thus, because the

notes and required supplementary information (RSI) are integral parts of the financial statements, they should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units.

63. Notes essential to fair presentation in the reporting entity general purpose financial statements encompass:

a. The fund types and account groups of the primary government including its blended component units.
b. Individual discretely presented component units considering both:
   (1) The unit's significance relative to the total discretely presented component units.
   (2) The nature and significance of the unit's relationship to the primary government.

Determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government.

Primary Government Separate Financial Statements

64. A primary government may find it useful or necessary (for example, to satisfy specific legal requirements) to issue financial statements that do not include the financial data of its component units. Paragraph 9 states that the provisions of this Statement apply to financial reporting by primary governments; thus, financial statements that present only the data of the primary government should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles.

Component Unit Financial Statements

65. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a component unit, may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of this Statement apply to the separately issued financial statements of

governmental component units. As noted in paragraph 43, this Statement should be applied in layers "from the bottom up." That is, each component unit "layer" should apply the definition and display provisions to its own component unit financial reports. Because this Statement is written from the perspective of the primary government, a governmental component unit should apply the provisions of this Statement as if it were a primary government. Separately issued financial statements of a component unit should acknowledge that it is a component unit of another government—for example, "Sample County School District, a component unit of Sample County." In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government.

Other Stand-Alone Government Financial Statements

66. Other stand-alone governments are legally separate governmental organizations that (a) do not have a separately elected governing body and (b) do not meet the definition of a component unit as discussed in paragraph 21. Other stand-alone governments include some special-purpose governments, joint ventures, jointly governed organizations, and pools. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as an other stand-alone government) serves as a nucleus for its reporting entity when it issues financial statements. The requirements of this Statement apply to the separately issued financial statements of all state and local governments. Because this Statement is written from the perspective of a primary government, a stand-alone government should apply the provisions of this Statement as if it were a primary government. The financial reporting entity consists of the stand-alone government and all component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the stand-alone government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. (See paragraphs 21-41.) In accordance with paragraph 68, any stand-alone government with a voting majority of its governing board appointed by a primary government should disclose that accountability relationship in its financial statements.

Reporting Relationships with Organizations Other Than Component Units

67. Primary government officials may appoint some, or all, governing board members of organizations that are not included as component units in the primary government's

reporting entity. These organizations are classified as (a) **related organizations,** (b) joint ventures and jointly governed organizations, and (c) component units of another government with characteristics of a joint venture or jointly governed organization.

Related Organizations

68. Organizations for which a primary government is accountable because that government appoints a voting majority of the board, but is not financially accountable, are related organizations. The primary government should disclose in the notes to the financial statements the nature of its accountability for related organizations. Groups of related organizations with similar relationships with the primary government may be summarized for purposes of the disclosure. In addition, the primary government should disclose any other information required by Codification Section 2300, "Notes to Financial Statements," paragraph .105f. The financial statements of a related governmental organization should disclose the primary government that is accountable for it and describe its relationship with that primary government.

Joint Ventures

69. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an **ongoing financial interest** or (b) an **ongoing financial responsibility.** Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients. *Joint control* means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. If the organization is jointly controlled but the participants do not have an ongoing financial interest or ongoing financial responsibility, as defined in paragraphs 70 and 71, it is a *jointly governed organization,* rather than a joint venture. Reporting requirements for participants in jointly governed organizations are provided in paragraph 77.

Ongoing Financial Interest

70. An *ongoing financial interest* in a joint venture includes an **equity interest,** as defined in paragraph 72, and any other arrangement that causes a participating government

to have access to the joint venture's resources. Access to the joint venture's resources occurs *directly*, such as when the joint venture pays its surpluses to the participants, or *indirectly*, such as when the joint venture undertakes projects of interest to the participants. For example, indirect access occurs when the participating governments are able to influence the management of the joint venture so that the joint venture uses its surplus resources to undertake special projects for the participants' citizenry.

Ongoing Financial Responsibility

71. A participating government has an *ongoing financial responsibility* for a joint venture if it is obligated in some manner for the debts (as described in paragraph 33) of the joint venture, or if the joint venture's continued existence depends on continued funding by the government. Often, joint ventures are created by two or more governments to provide goods or services directly to the governments or to provide goods or services to their constituencies on behalf of the governments. Consequently, a participating government is responsible for financing the operations of the joint venture, either by purchasing the joint venture's goods or services for its own use or by subsidizing the provision of the joint venture's services to the citizenry. For example, if a city/county public safety operation and facility is dependent on ongoing funding by the city and the county, the city and the county both have an ongoing financial responsibility. Similarly, the continued existence of a regional sewer utility that provides sewage treatment services to three cities (in relatively equal proportions) is dependent on the ongoing revenues from each of the three cities; therefore, each of the cities has an ongoing financial responsibility. On the other hand, an electric utility cooperative that generates power for sixteen cities (in relatively equal proportions) does *not* depend on the revenues from any single participant to continue in existence. Thus, one can conclude that none of the sixteen participants has a financial *responsibility* for the utility, unless one or more of the participants is obligated in some manner for the debt of the utility.[9]

[9]As the number of participants in a joint venture increases, the relative financial responsibility of each participant decreases accordingly. There is no exact point at which one can determine that a participant no longer has a financial responsibility for a joint venture—it becomes a matter of professional judgment. At issue is whether a participant should make all the disclosures in paragraph 75 (if there is financial responsibility) or only the disclosures in part b of that paragraph (if there is no financial responsibility). Thus, for situations at the margin, the participating government should evaluate whether the additional disclosures in paragraph 75a would provide useful information to financial statement users.

Equity Interest

72. For financial reporting purposes, there are two types of joint ventures: (a) joint ventures whose participants have equity interests and (b) joint ventures whose participants do not have equity interests. An equity interest in a joint venture is manifest in the ownership of shares of joint venture stock or by otherwise having an explicit, measurable right to the net resources of a joint venture that is usually based on an investment of financial or capital resources by a participating government. An equity interest may or may not change over time as a result of an interest in the net income or loss of the joint venture. An equity interest is explicit and measurable if the joint venture agreement stipulates that the participants have a present or future claim to the net resources of the joint venture and sets forth the method to determine the participants' shares of the joint venture's net resources.[10] As discussed below, if the government has an equity interest in the joint venture, that equity interest should be reported as an asset of the fund that has the equity interest.

Reporting Participation in Joint Ventures in Which There Is an Equity Interest

73. *Proprietary Funds.* The "Investment in joint venture" account reported in a proprietary fund should report the participating government's equity interest calculated in accordance with the joint venture agreement. Initially, the investment in the joint venture should be reported at cost. If the joint venture agreement provides for the participating government to share in the operating results of the joint venture, the equity interest should be adjusted for the participant's share of the joint venture's net income or loss, regardless of whether the amount is actually remitted. In calculating the participant's share of the net income or loss of the joint venture, any profit on the operating transactions between the proprietary fund and the joint venture should be eliminated. Nonoperating transactions between the joint venture and the proprietary fund should increase or decrease the equity interest. The equity interest should be reported in the proprietary fund's balance sheet as a single amount, and the fund's share of the joint venture's net income or loss should be reported in its operating statement as a single amount.

[10]The definition of equity interest is not intended to include a governmental unit's residual interest in assets that may (on dissolution) revert to the governmental unit for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property.

74. *Governmental Funds.* Because the equity interest in a joint venture generally represents equity primarily in capital assets and otherwise does not meet the definition of a financial resource, it is inappropriate to report the entire "Net investment in joint venture" as an asset in a governmental fund. All or a portion of the equity interest should be reported in the GFAAG. The participating government's total equity interest should be calculated in accordance with the joint venture agreement. The amount that should be reported in the GFAAG is the total equity interest adjusted for any portion of the equity interest that is included in the balance sheet of a governmental fund. For example, if the general fund reports an amount payable to, or receivable from, the joint venture, the "net investment" account in the GFAAG should be adjusted by that amount. Thus, the combination of amounts reported in the governmental funds and in the GFAAG should equal the total equity interest in the net assets of the joint venture. Governmental fund operating statements should report changes in joint venture equity interests only to the extent that the amounts received or receivable from the joint venture or the amounts paid or payable to the joint venture satisfy the revenue or expenditure recognition criteria for governmental funds.

Disclosure Requirements for Joint Venture Participants

75. Regardless of whether there is an equity interest, joint venture participants should make these disclosures in the notes to the financial statements:

a. A general description of each joint venture, including:
   (1) Description of the participating government's ongoing financial interest (including its equity interest, if applicable) or ongoing financial responsibility. This disclosure should also include information to allow the reader to evaluate whether the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the participating government in the future.
   (2) Information about the availability of separate financial statements of the joint venture.
b. The participating government should also disclose any other information required by Cod. Sec. 2300.105f.

Joint Building or Finance Authorities

76. Because of the accounting requirements for capital leases, some joint ventures are, in substance, the same as undivided-interest arrangements (see paragraph 80) except that a

formal organization is created. Depending on the specific language of the joint venture agreement, there may or may not be an equity interest in the joint authority (a debt service reserve, for example). A common example is a joint building authority whose sole purpose is to construct or acquire capital assets for the participating governments and subsequently lease the facilities to the governments. In accounting for these capital lease arrangements, the participating governments already should have reported their respective shares of the assets, liabilities, and operations of the joint venture. As a result, it is unnecessary to calculate and report a participant's equity interest (if any) in the joint building authority. Similarly, the disclosures in paragraph 75 are not required because they would duplicate other disclosures required in Cod. Sec. L20.

Jointly Governed Organizations

77. The laws in many states provide for the creation of regional governments or other multigovernmental arrangements that are governed by representatives from each of the governments that create the organization. These organizations may appear similar to joint ventures—they provide goods or services to the citizenry of two or more governments—but many do not meet the definition of a joint venture because there is no ongoing financial interest or responsibility by the participating governments. If a participant does not retain an ongoing financial interest or responsibility in the organization, only the disclosures in paragraph 75b are required.

Component Units and Related Organizations with Joint Venture Characteristics

78. An organization may have several participants, but if one participating government appoints a voting majority of the organization's governing body (and joint control is precluded because that participant has the power to make decisions unilaterally), the organization is either a component unit or a related organization of that participating government and should be reported in that participating government's financial statements in accordance with the provisions of paragraphs 42-54 and 68. However, the other (minority) participants should report their participation in the organization in accordance with the requirements of paragraphs 73-77. The organization itself, when included as a component unit in the majority participant's financial reporting entity, should report any equity interests (see paragraph 72) of the minority participants as fund balance or retained earnings "reserved for minority interests." In addition, as discussed in paragraph 37, there may be instances where a jointly controlled organization (such as a regional government)

is considered a component unit of one of the participating governments because it is fiscally dependent on that participating government. This type of organization should be reported, by all participants, in the manner described earlier in this paragraph.

Pools

79. A "pool" is another multijurisdictional arrangement that has the characteristics of a joint venture but has additional features that distinguish it, for financial reporting purposes, from the traditional joint venture defined in paragraph 69. For example, an investment pool generally has "open" membership; that is, governments are free to join, resign, and increase or decrease their participation in the pool without the knowledge or consent of the other participants. Furthermore, a participant's equity interest in the pool (for example, its share of investments in an investment pool) should already be recognized in its financial statements; thus, calculating and reporting an equity interest as defined in paragraph 72 would be redundant. Additionally, because of the broad-based, constantly changing membership shares in a pool, the disclosures in paragraph 75 would likely not provide useful information and are, therefore, not required. Entities participating in a public entity risk (insurance) pool should follow the accounting and reporting guidance provided in Codification Section C50, "Claims and Judgments."

Undivided Interests

80. An "undivided interest" (also known as a joint operation) is an arrangement that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. An additional consequence of the absence of a formal organizational structure is that there is no entity with assets, liabilities, expenditures/expenses, and revenues—and thus, *equity*—to allocate to participants. A government participating in this type of arrangement should report its assets, liabilities, expenditures/expenses, and revenues that are associated with the joint operation. The disclosures in paragraph 75 are not required for undivided interests. Some joint venture agreements may result in hybrid arrangements; they create separate organizations but provide for undivided interests in specific assets and liabilities and

equity interests in the other net resources of the organization. In these situations the participants should report their undivided interests in accordance with the provisions of this paragraph and their equity interests in accordance with paragraphs 73 and 74.

Cost-Sharing Arrangements

81. Cost-sharing projects (such as highway projects financed by federal, state, and local governments) should not be considered joint ventures because the participating governments do not retain an ongoing financial interest or responsibility in the projects. Joint purchasing agreements, in which a group of governments agree to purchase a commodity or service (for example, water or electricity) over a specified period of time and in specified amounts, also should not be considered joint ventures. In addition, multiple-employer PERS are not considered joint ventures for purposes of this Statement. Reporting and disclosure requirements for multiple-employer PERS are included in Codification Sections Pe5, "Pension Funds—Accounting," and Pe6, "Pension Funds—Disclosure."

EFFECTIVE DATE AND TRANSITION

82. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 1992. Earlier application is encouraged. Adjustments resulting from a change to comply with this Statement should be treated as an adjustment of prior periods. The financial statements of all prior periods presented should be restated, if practical, to show the financial information of the new reporting entity for all periods. If restatement of the financial statements for prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning fund balance or retained earnings, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of the restatement and its effect.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of three members of the Governmental Accounting Standards Board. Messrs. Freeman and Mandolini dissented.

Mr. Freeman and Mr. Mandolini dissent because they believe that the reporting entity definition is too broad and the expanded discrete presentation of aggregated component units is inconsistent with the underlying concepts and structure of the current governmental fund and fund-type reporting model. Specifically, Mr. Freeman and Mr. Mandolini believe that the reporting entity definition will result in the inclusion of certain component units that are not in substance part of the primary government. Indeed, organizations may be required to be included as component units in the reporting entity when the primary government cannot control, or even significantly influence, the organizations. For example, a city is considered to be accountable under this pronouncement for an authority's actions if the city's mayor (executive branch) appoints the authority's board without any requirement for city council (legislative branch) approval or confirmation. This accountability would exist even if the mayor and the council members are of different political parties, if the mayor subsequently does not seek reelection, or if the mayor is defeated in a reelection attempt.

Mr. Freeman and Mr. Mandolini are particularly concerned with the broad nature of the financial benefit and burden criteria. They do not believe a component unit should be included in the reporting entity based on a potential burden that may result from a remote contingency. In the example above, if the city were contingently liable (that is, obligated in some manner) for the authority's debt, the authority would be considered a component unit when the financial burden criteria of this pronouncement are applied. Under the most stringent standards that currently apply to state and local governmental financial statements, these situations would result in either note disclosure for debt issues or no disclosure for other contingencies.

Mr. Mandolini also believes that the disclosure of the criteria for including component units will not provide an adequate distinction among component units that are included in the reporting entity based on the criterion of imposition of will, financial benefit and burden, fiscal dependency, or "otherwise misleading or incomplete to exclude." Without further identification in the financial statements of these relationships, he is concerned that users will not understand the degree of the primary government's responsibility or accountability for the component units.

The display standards are of even greater concern to Mr. Freeman and Mr. Mandolini. They believe that significant changes in the display of the component units in the financial statements should have been deferred to the financial reporting model project. This would have given financial statement users, preparers, and attestors the opportunity to assess various options within the context of the entire reporting model rather than in the narrower scope of the reporting entity project. Moreover, they believe

that the reporting entity decisions should not prejudge either future general purpose reporting standards or popular reporting standards.

In addition, Mr. Freeman and Mr. Mandolini are concerned with the implications of reporting component units—with multiple funds, fund types, and account groups—in a single discrete column in general purpose financial statements. Although financial statement users may want to distinguish between the primary government and component unit financial information, Mr. Freeman and Mr. Mandolini believe this goal could have been accomplished without the aggregation of component unit information into a discrete presentation, which adds to the complexity of the financial statements. Moreover, they believe data presented in this column will neither demonstrate accountability nor provide useful financial information for decision-making purposes.

Further, Mr. Freeman and Mr. Mandolini believe that the potential aggregation of component units that use up to three different measurement focus and basis of accounting models into a single column in general purpose reports is incompatible with basic governmental fund accounting concepts and principles. They believe their position is supported by the GASB's Research Reports, *The Needs of Users of Governmental Financial Reports* (by Jones and Others) and *Financial Reporting by State and Local Governments: A Survey of Preferences among Alternative Formats* (by Wilson), which indicate that financial statement users prefer fund-type statements over aggregated or consolidated statements (which a single column with eliminations represents).

Mr. Freeman and Mr. Mandolini are concerned with two additional financial reporting issues. They believe the elimination of component unit budgetary reporting in the general purpose financial statements diminishes the value and usefulness of the financial information provided and does not achieve the desired goal of accountability. They also believe that additional guidance should have been provided to financial statement preparers on the level of disclosure necessary for the fair presentation of discretely presented component units and on the definition of "major" component units disclosed in condensed financial statement information.

Mr. Mandolini also believes that a single-column discrete presentation should retain the "memorandum only" heading as illustrated in the Exposure Draft. He is concerned that not using the "memorandum only" heading suggests acceptance and usefulness of consolidated data in governmental financial reports. Moreover, he believes that the discrete column is not equivalent to a fund type and, therefore, the "memorandum only" label should continue to be required, as is the case for the component unit totals in their separately issued reports.

Members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*
Martin Ives, *Vice-Chairman*
Robert J. Freeman
W. Gary Harmer
Anthony M. Mandolini

Appendix A

BASIS FOR CONCLUSIONS

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Appendix A

BASIS FOR CONCLUSIONS

Introduction

83. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes descriptions of the various alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

History of the Project

Research Report

84. The financial reporting entity project reexamined NCGA Statement 3, *Defining the Governmental Reporting Entity;* NCGA Statement 7, *Financial Reporting for Component Units within the Governmental Reporting Entity;* and NCGA Interpretation 7, *Clarification as to the Application of the Criteria in NCGA Statement 3, Defining the Governmental Reporting Entity.* The Board began its reexamination by commissioning research from its 1986-1987 academic fellow, Dr. James M. Patton. Dr. Patton surveyed preparers and attestors and interviewed users on reporting entity issues. The Board published the results of this research in 1987 as a GASB Research Report, *An Empirical Study of Governmental Financial Reporting Entity Issues.*

85. In the course of the research, preparers and auditors were asked about their experiences in implementing NCGA Statements 3 and 7 as well as their views on the effect of those two standards on the usefulness of governmental financial reports for various user groups. Users interviewed were asked about their preferences concerning entity scope and component unit financial reporting standards. When determining what component units to include, auditors tended to emphasize financial interdependency factors and preparers tended to emphasize oversight relationships. The preparers and auditors believe that NCGA Statement 3 is only slightly more useful to users than previous reporting practices and NCGA Statement 7 is less useful than NCGA Statement 3. Dr. Patton's interviews indicate that users believe that NCGA Statement 7 reduces the

usefulness of governmental financial reports due to information loss by blending component units with oversight units.

86. According to Dr. Patton, dissatisfaction with the current entity guidance focused largely on the combined effects of implementing both NCGA Statements rather than on the provisions of either one of those Statements. The definition provided in NCGA Statement 3 is broad in that it requires many potential component units to be considered for inclusion in a reporting entity. The reporting guidance provided in NCGA Statement 7 requires that the financial data of component units be combined with those of the oversight government as if each component unit were operated as a part of the oversight government. The combined effect is that the financial statements of all organizations considered to be component units are *blended* with those of the oversight government, thus obscuring the financial position and results of operations of both the oversight government and the component units in the general purpose financial statements. Based on these findings, the Board concluded that the two elements of the reporting entity—definition and display—are inseparable and should be reexamined simultaneously, rather than first addressing the issue of the definition of the reporting entity and then addressing the reporting (display) issues.

Discussion Memorandum

87. The Board issued a Discussion Memorandum (DM) in June 1988 that addressed these basic issues:

a. Should financial reporting convey the totality of the primary government and its component units as if the totality were an entity in itself, or should it attempt to show the differences in the relationships between the primary government and its component units?
b. What should be the criteria for determining whether an organization is part of the reporting entity?
c. How should organizations that are considered to be part of the reporting entity be included in the financial statements of the primary government?

Respondents were asked to answer several questions about these issues and joint venture issues. Respondents also were asked to analyze a number of case studies and express a preference on whether to include a specific organization in a reporting entity and, if so, by what method. Seventy-nine comment letters were received in response to the DM.

Exposure Draft

88. After considering the opinions and suggestions of the DM respondents, the Board developed a proposed Statement on the financial reporting entity. The Board based the definition of the entity on accountability, causing the scope of the definition to be broad. The reporting provisions were designed to communicate the differences in relationships between the primary government and its component units by specifying criteria to determine which of three methods (blending, discrete presentation, and note disclosure) would be used to report a component unit. The Exposure Draft (ED) of the proposed Statement was issued in March 1990.

89. The GASB received eighty-eight comment letters on the ED and held a public hearing at which representatives of twelve organizations testified. Overall, respondents supported the provisions for defining and displaying the financial reporting entity; however, the level of support for the proposed definition and display methodology varied. Most of those commenting on the definition approved of its being based on accountability, and many noted that the proposed reduction of subjectivity in the inclusion decision would be an improvement. Likewise, but to a lesser degree, the display methodology was perceived to be an improvement over the NCGA Statement 7 requirement to blend almost all component units. A number of respondents, however, were concerned about the use of discrete presentation. Some questioned the usefulness of aggregating component units that are all separate legal entities, have dissimilar operations, and possibly have a different measurement focus and basis of accounting. Many respondents did not address the joint venture issues, but those that did considered the ED to be an improvement over the existing guidance. Consideration of respondents' comments and redeliberation of the issues led to some modification of provisions in the ED, as discussed below.

Applicability

90. This Statement is written from the perspective of a primary government, referring to the primary government as the nucleus of a financial reporting entity. Therefore, when governmental organizations *other than* primary governments are applying the provisions of the Statement to their own separately issued financial reports, they should apply the Statement as if they were primary governments themselves. The Board notes that the Statement need *not* be applied by nongovernmental joint ventures or nongovernmental

component units when those organizations issue their own individual financial reports. (The Board intends to address the definition of government and governmental organizations in a separate project.) However, the primary government (or other governmental organization) should apply the Statement to all of its component units, regardless of whether they are governmental, when reporting its financial reporting entity. The Board acknowledges that organizations that might not otherwise be considered "governmental" might qualify for inclusion as a component unit.

Definition of the Financial Reporting Entity

Importance of Accountability in Defining the Reporting Entity

91. The emphasis on accountability in GASB Concepts Statement 1 provided the foundation for the Board's conclusion that the reporting entity *concept* should be based primarily on accountability. The Board's emphasis on accountability is consistent with the notion that all functions of government are responsible to elected officials at the federal, state, or local level and consequently should be reported as part of one of those levels of government. The emphasis on accountability also acknowledges the precepts underlying our representative form of government and the expectation that accountability for the actions of appointed officials (whether they serve the legally constituted government or specially created governmental corporations) lies with the elected officials who appointed them. The Background section of this Statement provides a discussion of the relationship between this basic premise and accountability.

92. In the ED, accountability (resulting from appointment of a voting majority of an organization's governing body) served as the benchmark for inclusion; therefore, if a primary government appointed a voting majority of an organization's governing body, the organization was considered a component unit. Respondents pointed out that this definition of the financial reporting entity would result in the inclusion of many previously excluded organizations. Many of the respondents who were accustomed to equating "inclusion" with display (blending) were concerned with the implications of a broader entity definition. However, the ED definition was coupled with a display methodology consisting of blending, discrete presentation, and note disclosure.

Note Disclosure of Related Organizations

93. Under the ED, component units were evaluated according to another set of criteria to determine *how* they should be included. Component units were *displayed* on the face of the financial statements only if the primary government was accountable for them *and* there were other significant factors in their relationships (imposition of will or financial interdependency) with the primary government. The component units that did not meet the benchmarks for display by discrete presentation or blending were to be disclosed in the notes.

94. After consideration of comments on the ED, the Board redeliberated the use of note disclosure as a method of inclusion. It considered the traditional meaning of "component unit" and the perceived inconsistency of *not displaying* a component unit's financial data on the face of the reporting entity's financial statements. Some respondents commented that defining an organization with which the primary government has no significant continuing relationship as a "component unit" overstates the situation and might lead to the inclusion of organizations that may be only tangentially related to the primary government, particularly for those governments that make "ceremonial" appointments.

95. The Board agreed with those respondents and eliminated note disclosure as a method of including component units. Instead, this Statement requires the primary government to report its accountability for these "related organizations" by disclosing its responsibility for appointing officials to operate these organizations. The disclosure should be structured to facilitate brevity; aggregation for similar related organizations is appropriate. For example, if a state government appoints the governing bodies of forty drainage districts in the state and has no continuing relationship with any, the state would be required to disclose only that it makes majority appointments to forty drainage districts but has no ongoing relationship with its appointees. It is not necessary to name each of the related organizations, but the primary government should disclose material balances and transactions with the related organization if they are not conducted in the ordinary course of business. What constitutes the "ordinary course of business" depends on the type of organizations involved in the transaction. For example, the normal distribution of state aid by a state department of education to a local school district is in the ordinary course of business and would not require disclosure. On the other hand, transactions that are not considered in the ordinary course of business, such as an emergency operating loan, may need to be disclosed.

Benchmark for Inclusion and for Display—Financial Accountability

96. Because the Board decided that note disclosure should not be a method of inclusion, it reevaluated the accountability-based definition of the financial reporting entity. It concluded that, although accountability should be the underlying factor for determining when organizations should be included, other factors must be considered as well. The Board agreed that *financial accountability* should be the benchmark for determining which organizations are component units, and are therefore displayed, in the reporting entity's financial statements. In defining financial accountability, the Board first looked to the provisions of the ED that essentially served as the benchmark for display—imposition of will or financial interdependency. The Board evaluated these criteria to determine their suitability for defining financial accountability. It found significant support for both, but agreed with respondents' suggestions to modify some aspects of the criteria.

Imposition of Will

97. The imposition-of-will criterion was originally introduced as a result of a field test conducted before the ED was issued. Imposition of will was added as a criterion that should be considered in the event that financial interdependency (benefit or burden) was not evident. In the ED, financially interdependent component units were required to be identified separately. However, after considering responses to the ED, the Board decided to consider financial benefit and burden and imposition of will equally.

98. The Board found considerable support for the imposition-of-will criterion in the ED. However, certain respondents pointed out that the ability to abolish an organization may not be a sufficiently discriminating characteristic in some jurisdictions because of "sunset review" statutes that would have the effect of including many local special-purpose governments as component units of their states. Others commented that, theoretically, all governmental organizations within a state could be abolished by the state government. The Board decided that, because the other imposition-of-will criteria captured the essence of relationships originally intended to be addressed by this criterion, there was no need to retain this criterion. In addition, because the standard notes that the list is not all-encompassing, a primary government is still able to consider the ability to abolish and other factors in determining whether imposition of will exists. However, if any one of the

criteria listed in paragraph 26 is met, an organization should be included because the criteria are considered prima facie evidence of imposition of will.

Financial Benefit or Burden

99. It was clear from the responses to the ED that there was some confusion about the term *financial interdependency*, a term that was used in NCGA Statement 3. It was frequently mistaken for fiscal independence, and vice versa. For this reason the Board agreed to use a different term for financial interdependency. This Statement uses the notion, referred to in the ED, of financial benefit and burden instead of financial interdependency. The terms *financial benefit* and *financial burden* more accurately convey the Board's intent. Financial *inter*dependency implies a give-and-take relationship, which the Board never intended to be necessary for financial statement display.

100. In the ED, financial benefit or burden was identified as the existence of any one of three criteria. However, respondents were concerned about certain aspects of these criteria. Some expressed concern about the assumption that all transactions that are not clearly quasi-external are prima facie evidence of financial interdependency (financial benefit or burden). The Board added paragraphs 27-33 to provide further discussion and examples of financial benefit and financial burden. The primary government's entitlement to resources of an organization is clarified through examples in paragraph 30, and the point is emphasized in paragraph 29 that it is the primary government's *ability* to access the resources, and not necessarily the existence of a transaction during the fiscal period, that should determine whether the criterion is met. Similarly, the obligation to finance deficits or provide support was discussed through the use of examples in paragraphs 31 and 32. The obligation may be a legal obligation or it may have been otherwise assumed. The Board believes it is the *potential* for financial burden that should determine whether the criterion is met; an actual transaction need not have taken place.

Financial Accountability through Fiscal Dependency

101. In the ED, the Board identified certain relationships that may exist between a primary government and other organizations that are so significant that excluding them would render the entity's financial statements incomplete or misleading. These relationships were presented in the ED as exceptions to the accountability concept. Fiscal

dependency was identified as one such relationship. Fiscal dependency is the inverse of fiscal independence (a criterion for defining a primary government). If an organization is not fiscally independent because another government has authority over any of the three events listed in paragraph 16, then the organization is fiscally dependent on that government.

102. The Board discussed the significance of fiscal dependency in making entity decisions and determined that, in terms of the government's relationship to the component unit, fiscal dependency is tantamount to financial accountability. For this reason, the Board agreed that fiscal dependency is not an exception to, but a different manifestation of, financial accountability. The criteria provided to determine fiscal dependency focus on capabilities that are essential to the fiscal autonomy of an organization. Because financial accountability, as defined in the Statement, can be manifest in two different ways, there is a possibility that an organization may qualify for inclusion in two different financial reporting entities. The Board believes that an organization should be included in only one reporting entity. The officials at the several levels of government should communicate with each other to resolve the issue. Judgment and cooperation between the two primary governments are required to determine the appropriate conclusion.

Other Component Units Included in the Entity

103. Although financial accountability is the benchmark in this Statement for inclusion in a financial reporting entity, the Board believes that there are other situations in which organizations should be included even in the absence of financial accountability. The Board believes there are some organizations whose relationships with a primary government are so significant that their exclusion would render the financial statements of the reporting entity misleading, even though financial accountability is absent. Previous entity guidance provided sufficient flexibility in the entity definition process to allow inclusion of component units that did not meet specific criteria. The Board's decision to base the entity definition on financial accountability provides an objective benchmark for inclusion. Rather than compromise the accountability-based definition, the Board decided to recognize an exception to the rule. Although it ultimately is a matter of professional judgment, the decision to include certain component units should be based on the nature and the significance of the relationship between the organization and the primary government. As noted in paragraph 41, the Board intends to pursue these issues in separate projects.

Displaying the Financial Reporting Entity

Methodology for Including Component Units

104. The Board's approach to displaying the financial reporting entity was shaped by results of the Patton Research Report and comments received in response to the DM and the ED. The Patton Research Report and other research indicated a significant level of user discontent with the requirement to aggregate all component unit data with those of the oversight unit because of the resulting information loss.

105. Because of this perceived discontent, in the DM the Board encouraged constituents to consider alternatives to blending. The responses to the DM appeared consistent with a recurring criticism of NCGA Statement 7—that its approach creates an "artificial" entity and that the resulting financial information is of relatively little value. Based on DM responses, the Board agreed on a methodology that would show the "nuances" in the relationships between the primary government and its component units rather than attempt to convey the totality of the primary government and its component units as if the totality were a single organization. As a result, the Board developed and exposed a display methodology consisting of blending, discrete presentation, and note disclosure.

106. In the ED, the Board required that once an organization met the accountability benchmark, it should be evaluated using various criteria to determine how it should be included. Component units that did not meet the criteria for blending were evaluated as potential discretely presented component units. Component units that did not meet the criteria for blending *or* for discrete presentation would be disclosed in the notes as component units that should not be displayed on the face of the financial statements.

107. As noted in paragraph 94, due process on the ED showed that constituents were uncertain about note disclosure as an appropriate method of including component units. And as noted in paragraph 95, the Board decided not to use note disclosure as a method of including component units.

The Primary Government

108. Both the definition and the display requirements of this Statement require organizations to be evaluated based on their relationships with a primary government. The

primary government provides the nucleus of a financial reporting entity because it is the accountability link between the entity and the electorate. In both the ED and the final Statement, legal form is used to draw the initial boundaries of the primary government. However, the Board also believes there are circumstances in which an organization that is perceived to be autonomous should nevertheless be considered a part of that primary government for financial reporting purposes because the primary government holds the corporate powers of the organization. For example, an organization may be operated by separately elected governing officials who are considered operationally autonomous from the primary government. Even so, the organization may not be able to hold title to property or issue debt. The Board believes that if the primary government holds these corporate powers for the organization, the organization is, in substance, part of the primary government, similar to a department.

109. The Board acknowledges that the concept of legal separateness may, at times, be subject to interpretation. Most legally separate organizations are readily identifiable as such by a corporate charter that sets forth the powers that accompany incorporation. However, other organizations may be legally separate even without a corporate charter if they are statutorily granted the typical corporate powers possessed by a chartered corporation. And it may not be necessary to possess all of a given set of corporate powers to have separate legal standing. Professional judgment is required to make this determination.

110. In addition, even though the basic premise is that accountability is inherent in the election process, the Board believes that special-purpose governments with separately elected governing officials that are not fiscally independent should not be reported as primary governments. Because they are fiscally dependent on another government, these governments are not able to stand alone as a direct link to their electorate.

Reporting Component Units

111. Some respondents to the ED were concerned that pension plans for which a primary government maintains a fiduciary responsibility might not meet the criteria for inclusion and, therefore, would be excluded from the reporting entity's financial statements. The Board does not intend this Statement to modify the fundamental guidance contained in Cod. Sec. 2200 for reporting the primary government. Therefore, it added language to the Statement clarifying that regardless of whether an organization meets the criteria for

inclusion as a component unit, a primary government should continue to report its fiduciary activities in its fiduciary funds.

112. The Board decided that the financial reporting entity definition should be applied in layers. That is, the Statement should be applied to component units from the bottom up. Component units may have relationships with organizations that meet the benchmark for inclusion when evaluated from the perspective of the component unit as the nucleus of its own reporting entity. These organizations are not component units of the primary government per se; they are, however, included in the primary government's financial reporting entity because they are included with the financial data of the component unit. That is, the component unit's "entity" to be included in the primary government's financial reporting entity should include the financial data of all organizations that meet the benchmark for inclusion from the perspective of the component unit as a nucleus.

113. Some of the respondents to the ED were concerned that the ED *prohibited* the issuance of financial statements for the primary government alone, without component units. The Board added paragraph 64 to clarify that primary governments may issue financial statements that do not include component unit data, but those financial statements should not be purported to be presented in accordance with generally accepted accounting principles.

Discrete Presentation

114. In the past, discrete presentation had limited use for reporting component units. NCGA Statement 7 (paragraph 9) noted that discrete presentation may be used "in those instances in which a component unit has adopted accounting principles that are not consistent with NCGA pronouncements but those principles are considered to be generally accepted, and where the inclusion of the component unit would distort a fund type of the reporting entity. . . ." As a practical matter, only certain governmental colleges and universities satisfied those criteria.

115. After evaluating discrete presentation's ability to display the financial data of component units in the GPFS without obscuring the financial data of the primary government, the Board concluded that discrete presentation should be the predominant method for including component units in a reporting entity. Furthermore, supporting information, provided elsewhere in the GPFS, is an integral part of this method.

Mechanics of Discrete Presentation

116. In the ED, the Board required that a reporting entity's combined balance sheet include a single column to present the combined balance sheets of all discretely presented component units regardless of their individual measurement focuses or bases of accounting (MFBAs). That decision was based largely on practicality because the alternative, to permit multiple columns (for example, separate columns for each component unit, aggregations by MFBA or fund type), could be cumbersome. The Board realized that as the number of discretely presented component units increases, the usefulness of the single-column aggregation would decrease. The Board's decision to aggregate the balance sheets of all qualifying component units into a single column recognized that a reporting entity's GPFS are intended to provide an *overview*, and not detailed information about individual component units. Supporting information was to be provided through segment-type note disclosures or combining statements.

117. Some ED respondents expressed concern about the usefulness of a single column. Although the Board believes that using a single column and providing combining statements or disclosing condensed financial data for each major component unit in the notes provides sufficient data, it agreed that preparers should be allowed to provide more detail by using more than one column on the face of the combined financial statements if they believe it is more informative to do so.

118. The provision in paragraph 47 pertaining to component units that use both governmental and proprietary fund accounting was intended by the Board to provide a practical solution to aggregating different MFBA. In the ED, the Board *required* the "single-line reduction" approach. However, in keeping with its decision to allow multiple columns on the combined statements, the Board decided to allow preparers to disaggregate a component unit with more than one MFBA and to report its operating results on more than one statement.

119. Except for the option to aggregate all discretely presented component units' balance sheets into a single column, the Board does not intend this Statement to change the method required by NCGA Statement 7 for presenting college and university component unit financial data in a reporting entity's financial statements. That is, a reporting entity's GPFS should continue to include a separate combined statement of current funds

revenues, expenditures, and other changes, and a combined statement of changes in fund balances for its component units that use the AICPA College Guide model. The Board has a separate project on its agenda to study the college and university financial reporting model and does not intend to prejudge the outcome of that project in this Statement. In addition, the Board believes that a college or university that is a *part of the primary government* based on this Statement should not be required to change its accounting and reporting format.

120. The Board notes that its decisions about aggregation of component units for discrete presentation should not be interpreted to mean that similar aggregation will be required for the fund types of the primary governments in the financial reporting model project. Decisions on the broader issue of aggregation will necessarily be influenced by decisions made in other projects currently on the Board's agenda. The Board believes that the method used to report component units in this Statement is based on a concept that would apply to any reporting model; that is, the financial statements of the reporting entity should allow the users to distinguish between the primary government and its component units. Although the *appearance* of the financial statements may change, the Board does not expect the *criteria* used to determine which component units should be displayed to change.

121. The Board notes that research results have shown that aggregated data in the general purpose financial statements are of limited value unless supporting details are also provided. Acknowledging this need, in the ED the Board required disclosure of segment-type information for individual discretely presented component units. In addition, the Board permitted combining statements to be presented in the GPFS in lieu of segment-type note disclosure. As a result of due process, however, the Board made two changes to this requirement. First, it decided that detailed disclosures for each individual component unit could result in excessive disclosures for smaller or less significant component units. Therefore, it revised the provision to apply only to "major" discretely presented component units. Disclosures for all nonmajor component units may be made in the aggregate rather than individually. Second, the Board concluded that presenting summarized or condensed financial statements for each major component unit would be a more effective means of communicating the information than segment-type information. The Board also determined that component unit combining statements could be presented in the GPFS as an alternative to the disclosure requirements. Further, by providing for the use of more than one column, those reporting entities with few component units could

overcome the need for additional statements or disclosures as described above by presenting columns on the combined financial statements for each component unit.

"Memorandum Only" Label

122. In a nonauthoritative illustration in an appendix, the ED illustrated the component units column with the label "memorandum only." Some respondents questioned the illustration, especially because this labeling had not been addressed in the Standards section of the ED. The ED illustration presented the "memorandum only" total based on the requirements of Cod. Sec. 2200.113. That section requires that a total column on a combined financial statement be labeled "memorandum only" because the total is not comparable to a consolidation. In response to comments on the illustration, the Board considered the need for the heading and decided that, although the data in the component units column are not comparable to a consolidation, the label is not necessary. The component unit aggregation does not purport to be a reporting entity total. Instead, the component units column is similar to financial data combined by fund type in the combined statements of the primary government. Fund-type combined totals are also "not comparable to a consolidation" and are not designated as memorandum only. The Board intends to address the use of memorandum only totals in general in its financial reporting model project.

Blended Component Units

123. In this Statement the Board's objective is to refrain from obscuring the financial data of a primary government by blending them with the data of component units. Only in specific situations in which a component unit is, in substance, an integral part of the primary government should a component unit be blended. Although ED respondents supported this objective, a few suggested that the criteria should allow component units to be included if they serve or benefit a primary government *almost* exclusively. The Board agreed and modified the criteria to recognize that component units should continue to qualify for blending if the component unit's service to others is incidental to the component unit's operations.

Budgetary Presentations

124. In both the ED and the final Statement, the Board generally notes no useful purpose in comparing the combined budget and actual results of legally separate discretely presented component units that are subject to different budgetary controls and processes. (This does not apply to blended component units that, because of their relationship to the primary government, are being treated as though they are part of the primary government.) The Board noted that users interested in the budget-and-actual data for a discretely presented component unit could obtain the information from the individual component unit financial data in the entity's CAFR. However, some ED respondents noted that budget data for a component unit are valuable only if they are provided by fund, not by total component as required in the ED. In the final Statement, the Board decided to eliminate the requirement to present each component unit's total budget in comparison to actual data. It believes that budget-and-actual data for the discretely presented component units should be sought in their separately issued financial statements. In addition, as with any information, the reporting entity may elect to provide budget-and-actual data for discretely presented component units in its CAFR, if it desires to do so.

Note Disclosures about Evaluation of Component Units

125. The Board considered the results of the GASB Research Report, *A Study of the Usefulness of Disclosures Required by GASB Standards* (Hay, 1988), in its deliberations over what disclosures should be required about the composition of the reporting entity. In general, it appears that users prefer simpler entity disclosures with less "boilerplate." With this in mind, the Board concluded that the notes to the financial statements should contain a brief discussion of the reporting entity, including how the component units are included and why. The Board intends to study the usefulness of note disclosures in general as a separate, future project.

Focus of the Notes

126. The Board's methodology for displaying the financial reporting entity focuses on the distinction between the primary government and its component units. Similarly, the Board believes that the notes to the financial statements also should focus on the distinction between the primary government and its component units. This distinction results in the amendment of all existing requirements for disclosures to focus on "the entity as a whole."

The focus on the primary government also provides guidelines for determining which component unit disclosures should be presented in the reporting entity's financial statements. Generally, the Board concluded that the disclosure requirements in Cod. Sec. 2300 should be evaluated for each component unit in light of its relationship to the primary government and its significance relative to the other discretely presented component units to determine which individual disclosures should be made in the reporting entity's general purpose financial statements. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that the debt service requirements to maturity should be disclosed for that component unit's debt. Similarly, if the primary government is not obligated in any manner for that component unit's debt but the debt is significant in proportion to the total of all component units, the disclosures would also be considered essential for fair presentation.

Joint Ventures

127. The Board developed the joint venture provisions of this Statement with the knowledge that the previous standard for reporting governmental participation in joint ventures was vague and had led to a wide variety of reporting practices. Although APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* was the foundation for reporting interests in joint ventures, many believe it is not useful for *governmental* joint ventures because there typically are no shares of stock issued to measure each participant's equity in the venture. Some governmental joint ventures compensate for this by stipulating in the joint venture agreement precisely how each participant's equity is to be measured. On the other hand, many governmental joint venture agreements are silent about the relative equity of the participants, and in some cases the participating governments do not have equity interests.

128. Although the Board agrees that this makes application of Opinion 18 difficult, it also believes these differences are significant and should be reflected in financial reporting. The Board believes that, in the interest of reliability, participating governments should not recognize an equity interest unless the joint venture agreement explicitly provides for the measurement of that equity interest. Some respondents to the ED disagreed, suggesting that equity interests may be implied and that a surrogate for equity interest is representation on the governing body. However, the Board continues to believe that an equity interest must be both explicit and measurable to be recognized as an asset of the

primary government, and this guidance has not changed since the ED. If equity interests in a joint venture are implied rather than explicitly stated, the joint venture participants should consider modifying the agreement to clarify its intent.

129. In situations in which the participating governments do not have ongoing financial interests or responsibilities, a jointly governed organization exists. Because note disclosure is no longer a method of inclusion and because the Board significantly decreased the amount of disclosure required for joint ventures, the Board believes that the disclosures proposed in the ED for jointly governed organizations would be inconsistent. Only the disclosures required by Cod. Sec. 2800.105f are needed.

Effective Date and Transition

130. The effective dates of GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, and related projects (capital reporting, pension accounting, risk financing and insurance, and perhaps others) have been deferred to coincide with the projected effective date of the financial reporting model project to completely implement the flow of financial resources measurement focus. The Board believes that, despite this Statement's relationship to the financial reporting model reexamination, its provisions can be applied to any reporting model, including the present one. As a result, the Board concluded that the effective date of this Statement should not be similarly deferred. However, to allow preparers sufficient time to implement the provisions of this Statement, the Board changed the effective date from June 15, 1991 (as proposed in the ED) to periods beginning after December 15, 1992. Earlier application is encouraged.

Appendix B

GLOSSARY

131. This appendix presents terms defined within the context of this Statement and includes definitions of other terms used in this Statement. Paragraph references direct the reader to a more complete discussion of the term within the Standards section of this Statement.

Accountability (accountable)

The relationship that results from the appointment of a voting majority of an organization's governing board. [¶10]

Appoint

To select members of a governing body (as long as the ability to do so is not severely limited by a nomination process) or confirm appointments made by others (provided that the confirmation is more than a formality or part of a ministerial responsibility). [¶22–¶24]

Blending (blended)

The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government. [¶52–¶54]

Component units

Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. [¶20]

Discrete presentation (discretely presented)

The method of reporting financial data of component units in a column(s) separate from the financial data of the primary government. An integral part of this method of presentation is that individual component unit supporting information is required to be provided either in condensed financial statements within the notes to the

reporting entity's financial statements, or in combining statements in its GPFS. [¶44–¶51]

Equity interest

A financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating government. [¶72–¶74]

Financial accountability (financially accountable)

The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board *and* is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government. [¶21–¶37]

Financial benefit

Legal entitlement to, or the ability to otherwise access, the resources of an organization. [¶29–¶30]

Financial burden

An obligation, legal or otherwise, to finance the deficits of, or provide financial support to, an organization; or an obligation in some manner for the debt of an organization. [¶31–¶33]

Financial reporting entity

A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed

organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. [¶10–¶12]

Fiscally independent/Fiscally dependent government

A government is fiscally *independent* if it can (a) determine its budget without another government having the substantive authority to approve and modify that budget, (b) levy taxes or set rates or charges without substantive approval by another government, and (c) issue bonded debt without substantive approval by another government. A government is fiscally *dependent* if it is unable to complete one or more of these procedures without the substantive approval of another government. [¶16–¶18 and ¶34–¶38]

Imposition of will (impose its will)

The ability to significantly influence the programs, projects, activities, or level of services performed or provided by an organization. [¶25–¶26]

Jointly governed organizations

A regional government or other multigovernmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. [¶77]

Joint venture

A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. [¶69–¶71]

Legally separate organization (separate legal standing)

An organization created as a body corporate or a body corporate and politic or otherwise possessing similar corporate powers. An organization that has separate legal standing has an identity of its own as an "artificial person" with a personality and existence distinct from that of its creator and others. [¶15]

Ongoing financial interest

An equity interest or any other arrangement that allows a participating government to have access to a joint venture's resources. [¶70]

Ongoing financial responsibility

a. A participating government is obligated in some manner for the debts of a joint venture.
b. The joint venture's existence depends on continued funding by the participating government. [¶71]

Other stand-alone government

A legally separate governmental organization that (a) does not have a separately elected governing body and (b) does not meet the definition of a component unit. Other stand-alone governments include some special-purpose governments, joint ventures, jointly governed organizations, and pools. [¶66]

Primary government

A state government or general purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. [¶13]

Related organization

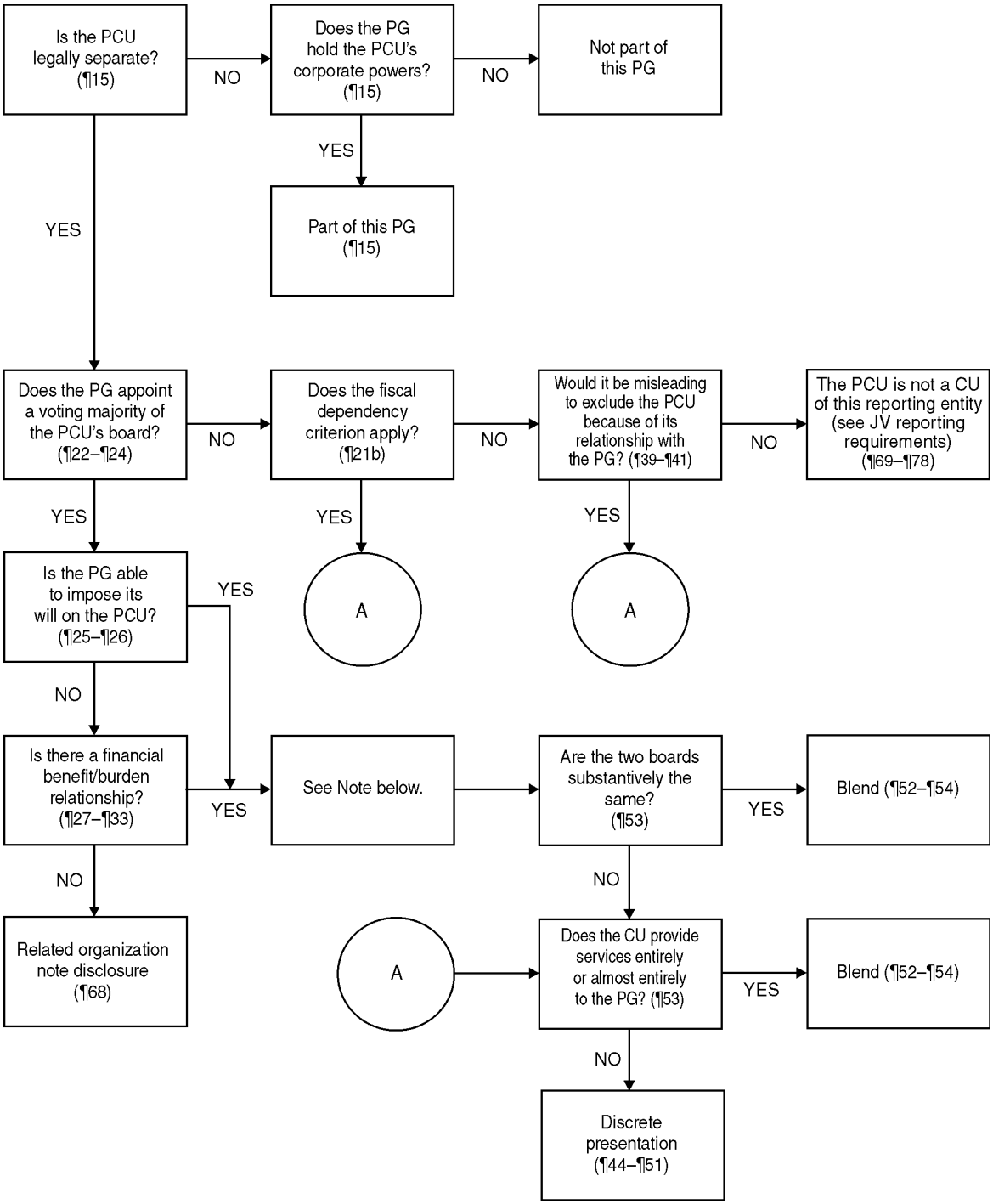
An organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the primary government appoints a voting majority of the organization's governing board. [¶68]

Appendix C

FLOWCHART FOR EVALUATING POTENTIAL COMPONENT UNITS

132. The following flowchart is intended to aid in the application of the provisions of this Statement to a particular reporting entity. It includes references to specific paragraphs in the Statement that provide a detailed explanation of the particular topic. The flowchart is nonauthoritative and should not be used in place of the Statement itself.

PCU	=	Potential component unit	CU	=	Component unit
PG	=	Primary government	JV	=	Joint venture



Note: A potential component unit for which a primary government is financially accountable may be fiscally dependent on another government. An organization should be included as a component unit of only one reporting entity. Professional judgment should be used to determine the most appropriate reporting entity (¶21b and ¶34–¶38). A primary government that appoints a voting majority of the governing board of a component unit of another government should make the disclosures required by ¶68 for related organizations.

Appendix D

ILLUSTRATIVE EXAMPLES

133. The examples presented in this appendix are intended to illustrate how the provisions of this Statement would be applied to a particular set of hypothetical circumstances. The examples are for illustrative purposes only and are nonauthoritative. The conclusions are structured to parallel the decision flowchart in Appendix C. Of course, application of this Statement to individual governments requires consideration of the circumstances specific to that government.

134. Example 1: Building Authority

Facts: The Building Authority was created by the city and organized as a separate legal entity. The authority is governed by a five-person board appointed for six-year terms by the mayor, subject to city council approval. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the city only. The bonds are secured by the lease agreement with the city and will be retired through lease payments from the city.

Conclusion: The authority is a component unit and should be blended. The authority's governing body is appointed by the city, the lease agreement constitutes the imposition of a financial burden on the city, and the authority provides services entirely to the city. The substance of a capital lease agreement is that the assets and debt are those of the lessee (the city).

135. Example 2: Downtown Development Authority

Facts: The Downtown Development Authority (DDA) was created as a separate legal entity by an act of the state legislature and "activated" by action of the city council to plan and develop the downtown area of the city and to attract new businesses and residents. The governing board of the authority is appointed by the city council for fixed terms. The DDA has the complete authority to hire management and all other employees. There is no significant continuing relationship between the city and the authority for carrying out day-to-day functions.

The authority is a separate taxing body and levies taxes against the property owners within the designated development district and may hold referendums of its constituents (for bond issues, tax increases, and so forth). The authority's levy and the levies of the city are independent of each other and are related only by the fact that they are levied against a common tax base within the authority's geographic boundaries. Unlike a tax increment situation, the city (and other taxing bodies) does not temporarily relinquish part of its own tax base for the benefit of the authority. Property taxes from the authority's levy are its primary revenue source.

The city council receives the annual budget of the authority for informational purposes, but in the opinion of the city's legal counsel has no option except to "approve" the budget. Approval is considered to be a formality. The city is under no obligation to finance operating deficits of the authority and does not have claim to any surpluses. The authority has the power to issue bonds for its lawful purposes. The city has no responsibility for the debt of the authority.

Conclusion: The authority is not a component unit but should be disclosed in the notes as a related organization. The city appoints the authority's separate governing board but is not financially accountable for the authority. The budgetary approval authority is not substantive and there are no other indications that the city can impose its will on the DDA. Moreover, the city is not entitled to surpluses of the authority and is not obligated for its deficits or debts, so there is no financial benefit or burden relationship.

136. Example 2a: Downtown Development Authority

Facts: Assume the same facts as in Example 2 except that the city council must approve all projects of the DDA in excess of $100,000 and has the authority to remove appointed board members at its discretion by majority vote.

Conclusion: The authority is a component unit and should be discretely presented. Its board is appointed by the city's officials. The city is able to impose its will on the DDA because it has the ability to reject or modify major projects of the authority and is able to remove the board members at its discretion. The criteria for blending are not met because the authority does not provide services entirely or almost entirely to the city and the authority's board and the city council are not substantively the same.

137. Example 3: Public Housing Authority (PHA)

Facts: A public benefit corporation was created by the city to provide subsidized public housing in accordance with federal legislation. The mayor and city council appoint the five members of the governing board for five-year staggered terms. The members do not serve at the discretion of the council; that is, they can be removed only for cause. The PHA board elects its own chairperson and recruits and employs its management personnel and other employees.

The PHA has no taxing or assessment powers, but it can issue bonds, sign contracts, reassign or terminate key personnel, set rents, and select tenants, and is solely responsible for the day-to-day operations of the projects. The PHA adopts its own budget, subject to federal approval, and has sole title to, and residual interest in, the assets of the authority.

The tax-exempt obligations issued by the PHA are special-revenue obligations of the PHA secured by a pledge of the full faith and credit of the federal government, and are not moral obligations of the city nor are they included within the city's constitutional or statutory debt limits. The federal government provides funds for the required principal and interest payments each year. The city has agreed to provide funding to the extent that program revenues and federal subsidies are insufficient. Historically, the program revenues and federal subsidies have provided approximately 85 percent of annual operating expenditures.

Conclusion: The PHA is a component unit and should be discretely presented. The separate board is appointed by the city's officials. The city is not able to impose its will on the PHA, but the PHA does impose a financial burden on the city because the city has agreed to appropriate funds to help meet the authority's operating expenditures.

138. Example 4: Redevelopment Authority

Facts: The Redevelopment Authority was established by the city as a separate legal entity in accordance with the state urban renewal law. It has the absolute authority (including the right to exercise eminent domain) to acquire, renovate, and resell property within a blighted area legally designated as the redevelopment district. The nine-person governing board of the authority is appointed by the mayor. One of the appointees must also be a member of the city council. The director of the authority is hired by the authority's board and is bound by an employment contract with the authority's board. The

employment agreement, however, requires the director to report to the city council, at least monthly, on the authority's activities, functions, operations, and financial condition.

The funding for the authority's start-up period was provided by loans from the city on an "as-needed" basis. The loans were repaid in full, with interest at prevailing rates, from proceeds of tax increment revenue bonds issued by the authority. The bonds are to be retired with incremental property and sales taxes from the redevelopment area (legally designated as a tax increment district). Local sales taxes collected within the district, in excess of a base amount (frozen when the authority was created), are required to be remitted to the authority by the city. Incremental property taxes resulting from the improved tax base are required to be remitted to the authority by the city; that is, it is assumed that increases in the assessed valuation of properties within the district, over the base valuation (frozen when the authority was created), resulted from the redevelopment. In effect, as long as the tax increment bonds are outstanding, the authority has its own "layer" of the total tax base within the district but is not empowered to levy a tax against that base. Incremental sales and property taxes and the proceeds from the resale of redeveloped properties in the district are the major sources of revenue for the authority.

The city does not have the ability to affect the budget of the authority in any way and has no legal or moral obligation to finance the deficits or honor the debt of the authority. Operating surpluses of the authority may not be paid to the city according to the urban renewal law.

The city and the authority signed a "cooperation" agreement because it was deemed to be necessary and in the public interest that the city and the authority cooperate to provide start-up services, operating facilities, and funding. The agreement states that nothing in it "shall be interpreted in any manner as establishing the city or its officials as agents of the authority, or the authority or its officials as agents of the city. Each entity shall remain separate."

The cooperation agreement also states that the city may provide the authority with such services as may be required to perform its public function, including accounting, treasury management, procurement, personnel services, planning services, and engineering services. Alternatively, the authority may obtain any or all of those services from third parties. The authority reimburses the city for all services provided by the city.

Conclusion: The Redevelopment Authority is a component unit and should be discretely presented. The authority's separate board is appointed by the city. The city is not able to impose its will on the authority. The diversion of the incremental sales and

property taxes to the authority by the city constitutes a financial burden on the city. The authority does not satisfy the criteria for blending because the presence of one council member on the authority's board does not mean the two governing bodies are substantively the same.

139. Example 5: Independently Elected Officials

Facts: State law pertaining to county government provides for the independent election of county officials. The officials are all part of the county's legal entity. The state constitution and state law grant certain of these officials the power to tax by a separate levy, and impose on them the responsibility to prepare and approve their own budgets, maintain their own accounting records, and prepare their own financial statements. None of the foregoing activities are subject to county board approval or oversight. The officials' tax levies are separate from, and independent of, all other county levies and are subject only to the statutory rate limitation imposed by the state. Fees charged for services are established by state law for consistency from county to county. Even though the officials prepare and approve their own budgets and, in a sense, provide their own revenues, they occasionally find it necessary to cover revenue shortfalls by requesting financial support from the county board. The board is under no legal obligation to honor the requests but has always done so. Although they can engage in short- or long-term bank borrowing with state approval, the officials are prohibited by statute from issuing bonds.

Office space for the officials is furnished by the county. Major capital purchases for the officials (which typically would be financed with long-term debt) are included in the county's overall budget. Title to real property is in the name of the county, whereas the officials hold title to equipment and all other property.

Conclusion: The offices of the independently elected officials are not legally separate from the county and therefore are reported as part of the primary government. If they were legally separate entities, the county would, nevertheless, include them as component units (discretely presented) because the officials do not meet the criteria for fiscal independence. The substance of the relationship between the officials and the county is that the county has approval authority over the officials' capital budget and must also approve (and, in fact, issue) bonded debt to finance the officials' capital needs. The criteria for blending are not met.

140. Example 6: County Port Authority

Facts: The County Port Authority was established under the provisions of the State Port Authority Act as a separate legal entity to operate port facilities and transit operations in the county. It is governed by a sixteen-member board appointed by the county board for fixed terms. The authority is authorized to impose fares, rates, rentals, and other charges for use of its facilities, without the approval of the county board, and may issue revenue bonds. The authority's board appoints management and has complete responsibility for its own budget and other aspects of fiscal management. The county, along with the state and federal governments, historically has provided substantial annual operating subsidies to the authority but is not legally required to do so. The county is not entitled to the authority's surpluses. The county has issued a significant amount of general obligation bonds to provide support for the authority's capital purchases.

Conclusion: The authority is a component unit and should be discretely presented as part of the county's reporting entity. The authority's separate governing board is appointed by the county. The county does not have the ability to impose its will on the authority, but the annual operating subsidies from the county and the issuance of authority-related debt by the county place a financial burden on the county. The authority does not provide services entirely or almost entirely to the county and thus would not be blended.

141. Example 7: Municipal Electric Utility

Facts: The Municipal Electric Utility (MEU) was created as a separate legal entity in accordance with state law to own, manage, and operate an electric utilities system in the city. The governing body of the MEU consists of five members. It is a self-perpetuating board composed of four citizens (customers) and the mayor of the city serving ex officio. The four citizen board members provide representation from each of the MEU's main service areas. When a board vacancy occurs, the remaining board members must nominate the successor. The MEU board chooses the nominee from a list of candidates proposed by an independent citizens' committee. The MEU's board may reject these candidates for any reason and request additional candidates. The MEU's nomination is then subject to confirmation by the city council. The council's confirmation procedure is essentially a formality. After confirmation, the council cannot remove a member for *any* reason.

The MEU uses various services provided by departments of the city, including insurance, legal, motor pool, and computer services. The MEU is billed for these services on a proportionate cost basis with other user departments and agencies. The MEU provides customer service and related functions to the city's water department. The estimated cost of providing these services is paid by the water department. The MEU also provides electric service to the city and its agencies and bills the city for those services using established rate schedules. The MEU selects and employs its executives, controls the hiring of its employees, and is responsible for rate setting and its overall fiscal management. The city is not legally or morally obligated for the MEU's debt. The MEU receives no appropriations from the city. In compliance with its charter, the MEU is required to make a payment in lieu of taxes annually to the general fund, calculated according to a formula based on kilowatt-hour sales for the preceding twelve-month period.

Conclusion: The nature of the nomination and confirmation process for the citizen members of the MEU's board is sufficiently restrictive to support the conclusion that the city is not accountable for the MEU. The MEU is neither a component unit of the city nor a related organization. If the members of the MEU's board were direct appointees of the city council, the MEU would be discretely presented as a component unit of the city because the annual payment "in lieu of taxes" provides a financial benefit to the city. The criteria for blending would not be met in this alternative example.

142. Example 8: State Turnpike Commission

Facts: The State Turnpike Commission (STC) was established by the state to construct, operate, and maintain the state turnpike system. The STC was created as an instrumentality of the state as a separate legal entity with powers to issue revenue bonds payable from tolls and other revenues. The governing body of the STC consists of eight members appointed by the governor for fixed ten-year terms and three state officials serving ex officio—the elected state treasurer, the elected state controller, and the appointed superintendent of highways.

The STC is financially self-sufficient, and the state cannot access its assets or surpluses and is not obligated to subsidize deficits of the STC. The STC sets its own rates and approves its own budget. The bond agreement states that the debt of the STC is not an obligation of the state. However, state statutes authorize the state's budget director to

include in the budget submitted to the legislature an amount sufficient to make the principal and interest payments on the STC bonds in the event STC revenues are insufficient to meet debt service requirements.

Conclusion: The STC is a component unit and should be discretely presented. The STC's separate board is appointed by the governor. The state is not able to impose its will on the STC, is not entitled to the surpluses of the STC, and is not obligated for the deficits of the STC. The state is, however, obligated in some manner for the debt of the STC (through the use of "moral obligation" language in the statute), even though the probability may be low that the state will actually be called on to honor the debt. The STC does not provide services entirely or almost entirely to the state and the presence of three state officials on the STC board does not mean the two boards are substantively the same. Accordingly, the criteria for blending would not be met.

143. Example 9: Metropolitan Sewerage District

Facts: The Metropolitan Sewerage District (MSD) is a special-purpose municipal corporation. Its primary responsibility is to provide sewage treatment services to the local governments in the immediate geographic area.

The MSD's governing body is composed of eleven members. Seven of the eleven are appointees of the mayor of the largest city in the district. The remaining four members are appointees of the elected executive officers of the four other municipalities within the district's boundaries. The appointees' terms are fixed three-year terms on a staggered basis. The commission elects a chairperson and vice-chairperson from its membership. Major financing decisions of the district require an approving vote of two-thirds (eight votes) of all commissioners.

The participating governments are bound by purchase of service contracts with the MSD. The MSD has the responsibility to determine and levy sewer use charges on the municipalities to apportion all operation and maintenance costs associated with treatment operations. Sewer treatment charges to the largest city account for more than 50 percent of the MSD's revenue.

The MSD is perpetual and no participating government has access to its resources or surpluses, nor is any participant liable for the MSD's debts or deficits (although the MSD's rate-setting mechanism has the effect of billing each government for its proportionate share of each year's "deficit").

The MSD has the authority to finance its capital projects costs through the use of a property tax levy or a user charge, or the sale of revenue or general obligation bonds.

Conclusion: The MSD is not a component unit of any of the participating governments. Despite the largest city's appointment of a numerical majority of the MSD's board, it does not have a voting majority. The MSD is a joint venture. Because of the small number of participating governments, the participants have ongoing financial responsibilities for the MSD. Thus, the participating governments would report their equity interest in the joint venture (if there is an equity interest) and disclose certain data about the MSD in the notes to their financial statements. If there is no equity interest, only the disclosures stipulated in paragraph 75 are required.

144. Example 10: Local School Board

Facts: The City Board of Education (BOE) is a separately elected body that administers the public school system in the city. The BOE is not organized as a separate legal entity and does not have the power to levy taxes or issue bonds. Its budget is subject to approval by the city council to the extent that, under state law, the BOE has the discretionary authority to expend the amount appropriated to it by the city. The BOE requests a single amount to fund its operations; the city council can reject the BOE's request and appropriate a lesser amount, but it does not have the ability to modify the individual line item amounts in the BOE's requested budget.

Conclusion: The BOE is a part of the city's primary government. Although the board is separately elected, the BOE is not legally separate from the city. If the BOE were organized as a separate legal entity and all other facts in the example remain the same, it would be discretely presented (the criteria for blending are not met) in the city's reporting entity because it is fiscally dependent on the city.

145. Example 11: State University System

Facts: State statutes grant the university system and its institutions broad corporate powers. The governor appoints all the members to the institutions' boards of trustees. Each board consists of nine appointees—one appointed each year for a nine-year term. No significant, continuing relationship with the governor is maintained after the appointments are made. The management personnel for these institutions are appointed by, and report

to, the boards of trustees. The state plays no significant role in influencing day-to-day operations and in directly controlling an individual institution's budget, surpluses or deficits, fiscal management, or the characteristics of the institution's revenue sources.

The state's appropriation for each institution is determined by a funding formula that is based primarily on the types of programs offered at each institution and the number of full-time-equivalent students enrolled. The state's approach to budgeting focuses on aggregate levels of support for programs as opposed to institutional-level funding decisions. Over the past ten years the state appropriations have averaged 55 percent of the institutions' unrestricted educational and general revenues. State law allows each institution to maintain its own treasury, to spend revenues it receives without an appropriation by the legislature, and to retain state subsidies not expended at the close of a fiscal year. In addition to the annual appropriations to support the institutions' operations, the state provides funding and constructs major academic plant facilities for the institutions. The bonds issued to finance the construction of the facilities are general obligations of the state secured by a pledge to assess special additional student fees, if the need arises.

Conclusion: The university system is a component unit of the state and should be discretely presented. The institutions' governing boards are appointed by the state. The annual appropriations and the funding for, and construction of, the institutions' capital facilities are evidence of a financial burden on the state. The criteria for blending are not met.

146. Example 12: Volunteer Fire Department

Facts: Two-thirds of the city's land area is served by five volunteer fire departments. Each of the five departments is organized as a separate not-for-profit corporation and each is governed by a board of trustees elected by the members of the volunteer fire departments from within their memberships. The fire departments' operations are financed 100 percent by the city under a contractual arrangement, although the city is under no obligation to continue that arrangement. The city also has traditionally financed the capital needs of the fire departments, but the titles to all the properties are in the names of the respective fire departments.

Conclusion: The fire departments are neither component units nor related organizations of the city. The boards are not appointed by the city's officials. The fiscal

dependency criteria are not met; it is not misleading to exclude the fire departments because all of their operating expenditures are financed under a contract with the city and are already reported as a city expenditure. The fire departments hold title to their capital assets; thus it is not misleading to exclude them from the city's GFAAG.

147. Example 13: Sports and Recreation Complex

Facts: A public benefit corporation was created to operate a sports and recreation facility and is governed by a six-member board composed of three appointees from each government. Under the joint venture agreement, on dissolution of the corporation all of the complex's assets will be transferred to the city and the county. A professional management firm is contracted (through approval by both the city and the county) to handle the day-to-day operations of the complex.

The complex issues its own debt, payable from its operating revenues. In addition, for the first forty years, the city and the county have each agreed to remit $750,000 annually to supplement the complex's operating revenues. The city and the county have no indebtedness or liability on behalf of the complex, except the commitment for the annual payments. However, the city and the county are each entitled to one-half of any operating surplus and have received annual payments from the complex in all but the first two years of the complex's operations. Usually, the payment from the complex exceeds the city and county annual subsidy. In essence, each year the complex returns to the city and the county (a) some or all of their subsidy and (b) one-half each of any additional operating surplus.

Conclusion: The complex is a joint venture because it is a separate legal entity that is jointly controlled by the city and the county. (Neither entity appoints a voting majority of the complex's board.) In addition, both the city and the county have an ongoing financial interest in the complex.

The city and the county have explicit and measurable equity interests. Each participant has a clearly defined one-half interest in the venture. If the participation is by a governmental fund, the "investment" in the joint venture should be reported in the GFAAG (as a capital investment) and adjusted annually. The annual payment to the complex and the annual receipt of one-half of the operating surpluses from the complex would be reported in the governmental fund as either a net revenue or a net expenditure. If the participating fund uses proprietary fund accounting, the "investment in joint

venture" would be reported as an asset of the proprietary fund, the $750,000 annual outlay would increase the investment, and the amounts paid to the participants by the complex would be treated like dividends and, thus, reduce the investment account balance. The participant's net investment account would also be adjusted annually for its share (50 percent) of the operating income or loss of the complex. The city and the county are also required to make the joint venture disclosures.

To illustrate, assume the complex had operating income of $2.2 million for the year and paid the city and the county $850,000 each at the end of the year, retaining some of the year's operating surplus for upcoming capital needs. (Amounts are in thousands.)

Complex	
Operating revenue	$10,000
Operating expense	(7,800)
Operating income	2,200
Payment from the participants	1,500
Payment to the participant	(1,700)
Total increase in equity	$2,000

City's Investment	
Beginning investment	$1,300
Paid in	750
Allocation of complex's net income	1,100
Received from complex	(850)
Ending investment	$2,300

If the city's participation was by a proprietary fund:

- The fund would report $1,100 as income from the joint venture.
- The investment account (the asset) would be $2,300 at the end of the year.

If the city's participation was by a governmental fund:

- The fund would report $100 as income from the joint venture ($850 minus $750).
- The GFAAG would report an "investment in joint venture" of $2,300 at the end of the year.

148. Example 14: Recreation Authority

Facts: A contractual agreement was made among three cities to establish a recreation authority to jointly exercise the cities' powers to acquire, develop, and maintain park facilities on property that extends into the corporate limits of all three cities.

Each city shares the cost of the authority in a relative proportion based on the population to be served by the park facilities. Revenues are generated from the concession operations in the parks, paddle-boat rentals, and a miniature golf course. The individual

cities are each responsible for financing their initial investments and any additional purchases of property within their respective corporate limits. Title to the properties remains with each city.

The authority is governed by a seven-member board, to which each city appoints two members; the seventh member is appointed by the county board of the county in which the three cities lie. None of the representatives is able to exert significant influence. A majority vote is required for any financial decisions.

On termination of the joint venture agreement, the use of all property will revert to the respective cities. All other assets that may have accumulated will be distributed to the cities in proportion to the aggregate amount of contributions.

Conclusion: The recreation authority is a hybrid arrangement. The real property and any related debt are undivided interests and should be reported as assets and liabilities by the individual cities in their GFAAG and GLTDAG, respectively. The recreation authority is also a joint venture because the cities have an explicit and measurable equity interest in the other resources of the authority (equipment, other personal property, cash, and so forth). The cities' interests are equity interests rather than residual interests because they arise from the annual operating subsidies over the years and, if material, should be reported in the GFAAG (if governmental funds are used) of the cities and disclosed in the notes.

149. Example 15: Twin City Airport Authority

Facts: The Twin City Airport Authority was created jointly as a separate legal entity by two cities. At inception, City A contributed 60 percent and City B contributed 40 percent of the initial capital (to purchase land). The cities jointly issued construction revenue bonds and facility revenue bonds to finance construction of the airport. The construction bonds are payable solely from and secured by airport revenues, and the facility bonds are payable solely from and secured by net rent revenues payable from various leases. The cities are not obligated in any manner for the authority's debt. The initial capital investments of the two cities are to be returned to the cities by the authority over a period not to exceed fifteen years.

The authority is governed by a ten-member board composed of the mayor of each city and three members of City B's city council and five members of City A's city council. Despite the numerical imbalance of the board, the joint venture agreement provides for

joint control; that is, both cities must approve the budget, the issuance of debt, and other significant activities.

The cities individually have executed covenants, by ordinance, to levy a maintenance tax (subject to rate limitations) if necessary to ensure that the airport will be operated and maintained efficiently. The authority board has entered into agreements with each airline that uses the airport, providing for adjustments to rentals, fees, and other charges that management believes would preclude losses from being incurred. To date, no maintenance tax has been levied by either city, and the airport has generated sufficient revenues to make annual payments to the cities in accordance with the repayment agreement for their initial capital contributions.

Conclusion: The airport authority is a joint venture because it was created as a separate legal entity and both cities have an ongoing financial responsibility for the entity. The fact that City A appoints a numerical majority of the authority's board is negated by the two cities' agreement for joint control of the authority. The initial capital contributed by the cities has the characteristics of an equity interest, but the agreement with the airport authority, in effect, converts the equity interest to a long-term receivable. Therefore, rather than reporting an equity interest in the joint venture in the GFAAG, the cities would report a receivable in the fund that receives the annual payments from the authority. The cities do, however, have ongoing financial responsibilities for the authority because they have obligated themselves to fund the deficits of the airport by agreeing to levy the maintenance tax if needed. The cities would make the required joint venture disclosures.

150. Example 16: Bi-State Port Authority

Facts: Two state governments create a port authority as a separate legal entity. Each state appoints six governing board members for the authority; the chairperson is elected by the twelve members from within the board. The authority is autonomous from a day-to-day operations perspective. Neither state provided start-up funds; the authority's facilities were financed with its own revenue bonds.

Neither state is obligated for the authority's debt and neither is obligated for its deficits or entitled to its operating surpluses, either directly or indirectly. The authority is financially self-sufficient. It is perpetual and no provisions are made in its charter or by-laws for the distribution of assets at termination.

Conclusion: The authority is a jointly governed organization. It is not a component unit because neither state appoints a voting majority of the authority's governing board. It is not a joint venture because the states do not have an ongoing financial interest or responsibility for the authority. If, however, the states could influence the management of the authority (through veto power over the authority's decisions regarding major projects, for example) to undertake projects that would benefit the states, an ongoing financial interest would exist and the authority would be considered a joint venture. In either case, the states should make the appropriate disclosures about their relationship to the authority.

151. Example 17: Municipal Electric Authority

Facts: Forty-eight cities have formed a municipal electric authority as a public corporation according to state law. The purpose of the authority is to enable small municipal electric systems to efficiently finance, construct, and operate electric power generation and transmission facilities. Each participating city appoints one member to the authority's governing board. Construction of the authority's facilities was financed by revenue debt of the authority. None of the participants is in any way liable for the authority's debt. The authority bills each participant for usage at rates that are calculated to cover the authority's "cost" as defined in the bond indenture. The rates are structured to systematically provide cash for debt requirements, operating expenses (excluding depreciation and amortization), and reserves as specified by the bond indentures. Each city is bound by contract with the authority to annually purchase a minimum number of kilowatt-hours. The contracts are renewable at the cities' option every three years. Except for the minimum purchase contracts, no participant has any other obligation, entitlement, or residual interest. The authority is financially self-sufficient.

Conclusion: The authority should be reported by the participants as a jointly governed organization. None of the participating municipalities has an ongoing financial interest, and because of the large number of participants the cities' purchase contracts with the authority do not represent ongoing financial responsibilities.

Appendix E

ILLUSTRATIVE DISCLOSURES

152. This appendix illustrates some of the disclosures required by this Statement. It is presented for illustrative purposes only and is nonauthoritative. Application of the provisions of this Statement may require disclosures and formats other than those illustrated here.

A. The Financial Reporting Entity

Sample County is a municipal corporation governed by an elected eleven-member board. As required by generally accepted accounting principles, these financial statements present Sample County (the primary government) and its component units. The component units discussed in Note B are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

B. Individual Component Unit Disclosures

Blended Component Units. The Sample County Building Authority (SCBA) is governed by a five-member board appointed by the county board. Although it is legally separate from the county, the SCBA is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings.

Discretely Presented Component Units. The component units columns in the combined financial statements include the financial data of the county's other component units. They are reported in a separate column to emphasize that they are legally separate from the county. Except for the Sample County School District (SCSD), the governing bodies of all of these component units are appointed by the county board. The SCSD's board is elected by the voters of Sample County.

1. The *Sample County School District* operates the twelve elementary and three high schools in the county. The SCSD may not issue debt without the county's approval, and its property tax levy requesis subject to county board approva The district's

taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

2. The *Parks and Recreation Commission* operates and maintains the three public golf courses and the public parks in the county. The county provides a material subsidy to the commission, primarily to finance the operations of the public parks.
3. The *Transit Authority* provides mass transit services to the citizens of the county. The county annually provides significant operating subsidies to the authority.
4. The *Airport Authority* operates the county's noncommercial airport facility. The authority's operating budget is subject to the approval of the county board. The board is also required to approve proposed capital improvements or additions to the authority's facilities.
5. The *Convention Center Authority* operates the County Convention Center. The county levies and collects a special 1 percent hotel and amusement tax to subsidize the center's operations and is secondarily liable for the Convention Center bonds.

The following pages present condensed financial statements for each of the five discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices:

Sample County Building Authority
665 Main Street
Major City

Sample County School District
1112 Education Street
Major City

Sample County Parks and Recreation Commission
789 Parks Drive
Eastville

Sample County Transit Authority
123 Trolley Avenue
Major City

Sample County Airport Authority
10 Airport Road
Westburg

Sample County Convention Center Authority
456 Stadium Drive
Major City

Condensed Financial Statements—Discretely Presented Component Units

Balance Sheets

	School District	Parks and Recreation Commission	Transit Authority	Airport Authority	Convention Center Authority	Total
Assets:						
Current assets	$1,068,935	$542,261	$414,970	$384,065	$227,285	$2,637,516
Lease receivable from Sample County	—	—	—	810,000	—	810,000
Property, plant, and equipment	5,173,340	2,963,205	4,174,004	3,175,050	3,705,978	19,191,577
Amounts to be provided	125,000	68,000	—	—	—	193,000
Total assets	$6,367,275	$3,573,466	$4,588,974	$4,369,115	$3,933,263	$22,832,093
Liabilities:						
Current liabilities	$275,530	$301,727	$66,973	$51,661	$37,819	$733,710
Due to Sample County	—	—	65,000	—	—	65,000
Bonds payable	125,000	68,000	—	276,000	2,500,000	2,969,000
Total liabilities	$400,530	$369,727	$131,973	$327,661	$2,537,819	$3,767,710
Equity:						
Investment in general fixed assets	$5,173,340	$2,663,205	—	—	—	$7,836,545
Contributed capital	—	141,140	$3,900,500	$3,550,000	$1,250,000	8,841,640
Retained earnings	—	166,182	556,501	491,454	145,444	1,359,581
Fund balances	793,405	233,212	—	—	—	1,026,617
Total equity	$5,966,745	$3,203,739	$4,457,001	$4,041,454	$1,395,444	$19,064,383
Total liabilities and equity	$6,367,275	$3,573,466	$4,588,974	$4,369,115	$3,933,263	$22,832,093

Statements of Revenues, Expenses, and Changes in Equity

	Transit Authority	Airport Authority	Convention Center Authority	Totals
Operating revenues	$ 350,677	$ 524,293	$ 314,661	$1,189,631
Operating expenses:				
Depreciation	208,700	158,752	92,650	460,102
Other	486,491	461,790	251,583	1,199,864
Operating income (loss)	(344,514)	(96,249)	(29,572)	(470,335)
Operating grants	200,000	60,000	150,000	410,000
Tax revenues	—	—	100,000	100,000
Other nonoperating revenue (expense)	11,765	41,432	(218,995)	(165,798)
Transfers from (to) Sample County	150,000	—	25,000	175,000
Net income for the year	$ 17,251	$ 5,183	$ 26,433	$ 48,867
Equity—beginning	4,314,750	3,761,271	1,369,011	9,445,032
Capital contributions	125,000	275,000	—	400,000
Equity—ending	$4,457,001	$4,041,454	$1,395,444	$9,893,899

Statements of Revenues, Expenditures, and Changes in Equity

	School District	Parks and Recreation Commission	Totals
Revenues	$ 728,281	$194,462	$ 922,743
Expenditures:			
Operating and other	658,923	233,587	892,510
Capital outlay	75,000	27,500	102,500
Debt service	30,000	18,200	48,200
Excess of revenues over (under) expenditures	(35,642)	(84,825)	(120,467)
Transfers from (to) Sample County	—	100,000	100,000
Net income from proprietary operations	—	2,350	2,350
Net changes in equity	$ (35,642)	$ 17,525	$ (18,117)
Equity—beginning	829,047	523,009	1,352,056
Equity—ending	$793,405	$540,534	$1,333,939

C. Related Organizations

The county's officials are also responsible for appointing the members of the boards of other organizations, but the county's accountability for these organizations does not extend beyond making the appointments. The county board chairman or specific committees of the county board appoint the board members of the Sample County Conservation Commission, the County Bicentennial Commission, and the Economic Development Association of Sample County. In 19XX, the county appropriated operating grants of $1,000 and $5,000 to the Bicentennial Commission and the Economic Development Association, respectively.

D. Joint Ventures

The county is a participant with Major City (the city) in a joint venture to operate Memorial Stadium, a sports and recreation facility. The Memorial Stadium Authority (MSA), a public benefit corporation, was created for that purpose. On dissolution of the corporation, the net assets of the MSA will be shared equally by the county and the city. The MSA is governed by a six-member board composed of three appointees from the county and three from the city. The county and the city are each obligated by contract to remit $250,000 annually to supplement the MSA's operating revenues and are each entitled to one-half of the MSA's annual operating income, if any. In accordance with the joint venture agreement, the MSA remitted $350,000 to the county for 19X2. The county's net investment and its share of the operating results of the MSA are reported in the county's recreation fund (an enterprise fund). The county's equity interest in the MSA was $2.3 million at December 31, 19X2. Complete financial statements for the MSA can be obtained from the MSA's administrative office at 460 Stadium Drive, Major City, or from the county clerk's office at the courthouse.

E. Jointly Governed Organizations

The county, in conjunction with North and South counties and the cities of Eastville, Westburg, and Major City, has created the Regional Planning Commission (RPC). The RPC's board is composed of three members from each of the county boards and one member from the governing board of each of the three municipalities. The county appropriated $60,000 for an operating grant to the RPC for 19X2.

F. Long-Term Debt

Sample County

The county issues general obligation bonds to provide funds for a variety of purposes, including public safety, transportation, and general government. In addition, the SCBA issues lease revenue bonds that are secured by lease payments from the county. Bonds currently outstanding are:

Purpose	Interest Rate	Amount
General government	X%	$ X,XXX
Public safety	X%	X,XXX
Transportation	X%	X,XXX
SCBA	X%	X,XXX
		$XX,XXX

Annual debt service requirements to maturity for the above bonds, including interest of $XXX, are:

Fiscal Year Ending December 31	General Government	Public Safety	Transportation	SCBA
19X3	$ XXX	$ XXX	$ XXX	$ XXX
19X4	XXX	XXX	XXX	XXX
19X5	XXX	XXX	XXX	XXX
19X6	XXX	XXX	XXX	XXX
19X7	XXX	XXX	XXX	XXX
Thereafter	X,XXX	X,XXX	X,XXX	X,XXX
Total	$X,XXX	$X,XXX	$X,XXX	$X,XXX

Component Units

The county is secondarily liable for the Convention Center Authority's revenue bonds. The primary sources of repayment for the bonds are the authority's operating revenues and the hotel and amusement tax. Debt service requirements to maturity for the authority's revenue bonds, including $XX of interest, are as follows:

Fiscal Year Ending December 31	Amount
19X3	$ XX
19X4	XX
19X5	XX
19X6	XX
19X7	XX
Thereafter	XXX
Total	$XXX

The county is not obligated in any manner for the debt of the Parks and Recreation Commission, the Airport Authority, or the School District.

[**Note:** Note F illustrates the provisions of paragraphs 62 and 63 as they might apply to the long-term debt disclosures of Sample County, as required by Cod. Sec. 2300.104i. If the long-term debt of the Parks and Recreation Commission, the Airport Authority, or the School District is significant in relation to the total component units column, disclosure of the debt service requirements to maturity should be made. Although not required, the county could have included the long-term debt disclosures for the Parks and Recreation Commission, the Airport Authority, and the School District in a summary schedule ("Other component units") so that the detail of the long-term debt disclosures agrees with the total long-term debt reported in the component units column.

Other individual component unit disclosures, not illustrated here, may also be necessary.]

Appendix F

ILLUSTRATIVE FINANCIAL STATEMENT FORMATS

153. This Statement will, in many cases, result in the addition of a "Component units" column (or columns) in some or most of the basic statements in the GPFS of a financial reporting entity. (The combined budget-to-actual statement is not required to include discretely presented component unit data.) The following examples illustrate the discrete presentation of component units using single- and multiple-column approaches. Example 1 uses the single-column approach, Example 2 illustrates the disaggregation of component units into governmental and proprietary categories, and Example 3 illustrates the use of multiple columns to display individual component units. Combined and combining cash flow statements are omitted only for purposes of the illustrations.

154. Cod. Secs. 2200.108, .110, and .112 state that the combined statements *may* contain a total column; thus, the total columns for the primary government and the reporting entity are not required, but they are presented for illustrative purposes. Those Codification paragraphs also provide that any interfund eliminations made (optional) should be apparent from the headings or be disclosed in the notes. Comparative totals for the prior year may also be presented but are not required.

155. Example 1 presents a reporting entity that includes a general purpose local government and five discretely presented component units. The School District uses governmental fund accounting; the Transit Authority, Airport Authority, and Convention Center Authority use proprietary fund accounting; and the Parks and Recreation Commission uses governmental funds to account for most of its transactions and balances except for its golf course operations, which are accounted for in an enterprise fund. The component units are presented using the single-column method. The Parks and Recreation Commission's golf course operations are reduced to a single net amount and are reported as a separate line item on the combined and combining statements of revenues, expenditures, and changes in fund equity.

Example 1

Combined Balance Sheet

	Primary Govt's Fund Types and Account Groups	Totals— Memorandum Only Primary Government	Component Units	Totals— Memorandum Only Reporting Entity
Assets:				
Cash		$ 1,923,605	$ 1,656,960	$ 3,580,565
Investments		1,679,250	893,227	2,572,477
Receivables, net		1,214,106	87,329	1,301,435
Investment in joint venture	[Primary government	2,300,000	—	2,300,000
Due from component units	fund-type and	65,000	—	65,000
Lease receivable from primary government	account group data are displayed	—	810,000	810,000
Fixed assets, net	as appropriate.]	11,711,359	19,191,577	30,902,936
Amounts to be provided		6,406,000	193,000	6,599,000
Total assets		$25,299,320	$22,832,093	$48,131,413
Liabilities:				
Accounts payable		$167,492	$733,710	$901,202
Due to primary government		—	65,000	65,000
Lease payable to component unit		810,000	—	810,000
Revenue bonds payable		—	2,776,000	2,776,000
General obligation bonds payable	[Primary government	6,406,000	193,000	6,599,000
Total Liabilities	fund-type and account group	$7,383,492	$3,767,710	$11,151,202
Equity:	data displayed			
Investments in general fixed assets	as appropriate.]	$7,326,500	$7,836,545	$15,163,045
Contributed capital		5,228,666	8,841,640	14,070,306
Retained earnings		2,177,156	1,359,581	3,536,737
Fund balances		3,183,506	1,026,617	4,210,123
Total equity		$17,915,828	$19,064,383	$36,980,211
Total liabilities and equity		$25,299,320	$22,832,093	$48,131,413

Combined Statement of Revenues, Expenditures, and Changes in Fund Equity

	Primary Govt's Fund Types and Account Groups	Totals—Memorandum Only Primary Government	Component Units	Totals—Memorandum Only Reporting Entity
Revenues:				
Taxes		$1,451,187	$675,327	$2,126,514
Intergovernmental		2,309,100	233,474	2,542,574
Licenses and permits		191,700	13,942	205,642
Total revenues		$3,951,987	$ 922,743	$4,874,730
Expenditures:	[Primary government fund-type data displayed as appropriate.]			
Current:				
General government		$1,078,375	$ 233,587	$1,311,962
Public safety		738,295	—	738,295
Highways and streets		502,400	—	502,400
Education		—	658,923	658,923
Capital outlay		1,439,100	102,500	1,541,600
Debt service—Principal		315,500	33,400	348,900
Interest		368,420	14,800	383,220
Total expenditures		$4,442,090	$1,043,210	$5,485,300
Other Financing Sources (Uses):				
Proceeds of general obligation bonds		$1,365,500	—	$1,365,500
Operating transfers in		77,030	—	77,030
Operating transfers from primary government		—	$ 100,000	100,000
Operating transfers out		(74,500)	—	(74,500)
Operating transfers to component units		(275,000)	—	(275,000)
Total other financing sources (uses)		$1,093,030	$ 100,000	$1,193,030
Excess of revenues and other sources over (under) expenditures and other uses		$602,927	$ (20,467)	$ 582,460
Net income from golf course operations		—	2,350	2,350
Fund equity—Beginning		1,213,328	1,352,056	2,565,384
Fund equity—Ending		$1,816,255	$1,333,939	$3,150,194

Combined Statement of Revenues, Expenses, and Changes in Fund Equity

	Primary Govt's Proprietary and Similar Trust Funds	Totals— Memorandum Only Primary Government	Component Units	Totals— Memorandum Only Reporting Entity
Operating Revenues:				
Charges for services		$760,150	$1,189,631	$1,949,781
Interest		30,940	—	30,940
Contributions		60,686	—	60,686
Total operating revenues		$851,776	$1,189,631	$2,041,407
Operating Expenses:	[Primary government			
Cost of services	fund-type data	$430,304	$1,018,008	$1448,312
General and administrative	displayed as	100,076	181,856	281,932
Depreciation	appropriate.]	148,550	460,102	608,652
Benefit payments		21,000	—	21,000
Refunds		25,745	—	25,745
Total operating expenses		$725,675	$1,659,966	$2,385,641
Operating income (loss)		$126,101	$ (470,335)	$ (344,234)
Nonoperating Revenues (Expenses):				
Operating grants		$ 55,000	$ 410,000	$ 465,000
Net income from joint venture		145,000	—	145,000
Interest revenue		8,830	82,522	91,352
Interest expense and fiscal changes		(62,988)	(248,320)	(311,308)
Tax revenues	[Primary	—	100,000	100,000
Total nonoperating revenues (expenses)	government fund-type data	$ 145,842	$ 344,202	$ 490,044
Income (loss) before operating transfers	displayed as appropriate.]	$ 271,943	$ (126,133)	$ 145,810
Operating transfers in		65,000	—	65,000
Operating transfers from primary government		—	175,000	175,000
Operating transfers out		(67,530)	—	(67,530)
Net income		$ 269,413	$ 48,867	$ 318,280
Fund equity—Beginning		7,830,994	9,445,032	17,276,026
Contributions		672,666	400,000	1,072,666
Fund equity—Ending		$8,773,073	$9,893,899	$18,666,972

156. The following illustrations demonstrate the relationship between the component unit data that are discretely presented in the combined financial statements and the supporting information provided in the CAFRs of the discretely presented component units. Note that combining statements may be presented in the GPFS in lieu of the individual component unit disclosures required by paragraph 51.

Example 1

Combining Balance Sheet—Component Units

	School District	Parks and Recreation Commission	Transit Authority	Airport Authority	Convention Center Authority	Totals
Assets:						
Cash	$714,738	$440,001	$278,208	$ 93,152	$130,861	$1,656,960
Investments	312,751	94,703	135,679	275,022	75,072	893,227
Receivables, net	41,446	7,557	1,083	15,891	21,352	87,329
Lease receivable from primary government	—	—	—	810,000	—	810,000
Fixed assets, net	5,173,340	2,963,205	4,174,004	3,175,050	3,705,978	19,191,577
Amounts to be provided	125,000	68,000	—	—	—	193,000
Total assets	$6,367,275	$3,573,466	$4,588,974	$4,369,115	$3,933,263	$22,832,093
Liabilities:						
Accounts payable	$275,530	$301,727	$66,973	$51,661	$37,819	$733,710
Due to primary government	—	—	65,000	—	—	65,000
Revenue bonds payable	—	—	—	276,000	2,500,000	2,776,000
General obligation bonds payable	125,000	68,000	—	—	—	193,000
Total liabilities	$ 400,530	$ 369,727	$ 131,973	$ 327,661	$2,537,819	$3,767,710

Combining Balance Sheet—Component Units (continued)

	School District	Parks and Recreation Commission	Transit Authority	Airport Authority	Convention Center Authority	Totals
Equity:						
Investment in general fixed assets	$5,173,340	$2,663,205	—	—	—	$7,836,545
Contributed capital	—	141,140	$3,900,500	$3,550,000	$1,250,000	8,841,640
Retained earnings	—	166,182	556,501	491,454	145,444	1,359,581
Fund balances	793,405	233,212	—	—	—	1,026,617
Total equity	$5,966,745	$3,203,739	$4,457,001	$4,041,454	$1,395,444	$19,064,383
Total liabilities and equity	$6,367,275	$3,573,466	$4,588,974	$4,369,115	$3,933,263	$22,832,093

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity—Component Units

	School District	Parks and Recreation Commission	Totals
Revenues:			
Taxes	$552,175	$123,152	$675,327
Intergovernmental	176,106	57,368	233,474
Licenses and permits	—	13,942	13,942
Total revenues	$728,281	$194,462	$922,743
Expenditures:			
Current:			
General government	—	$233,587	$233,587
Public safety	—	—	—
Highways and streets	—	—	—
Education	$658,923	—	658,923
Capital outlay	75,000	27,500	102,500
Debt service—Principal	20,000	13,400	33,400
Interest	10,000	4,800	14,800
Total expenditures	$763,923	$279,287	$1,043,210
Other Financing Sources (Uses):			
Operating transfers from primary government	—	100,000	100,000
Total other financing sources (uses)	—	$100,000	$100,000
Excess of revenues and other sources over (under) expenditures and other uses	$(35,642)	$ 15,175	$ (20,467)
Net income from golf course	—	2,350	2,350
Fund equity—Beginning	829,047	523,009	1,352,056
Fund equity—Ending	$793,405	$540,534	$1,333,939

Combining Statement of Revenues, Expenses, and Changes in Fund Equity—Component Units

	Transit Authority	Airport Authority	Convention Center Authority	Totals
Operating Revenues:				
Charges for services	$ 350,677	$ 524,293	$ 314,661	$1,189,631
Total operating revenue	$ 350,677	$ 524,293	$ 314,661	$1,189,631
Operating Expenses:				
Cost of services	$ 413,993	$ 402,632	$201,383	$1,018,008
General and administrative	72,498	59,158	50,200	181,856
Depreciation	208,700	158,752	92,650	460,102
Total operating expenses	$ 695,191	$ 620,542	$344,233	$ 1,659,966
Operating income (loss)	$ (344,514)	$ (96,249)	$(29,572)	$ (470,335)
Nonoperating Revenues (Expenses):				
Operating grants	$ 200,000	$ 60,000	$150,000	$ 410,000
Interest revenue	11,765	64,752	6,005	82,522
Interest expense and fiscal charges	—	(23,320)	(225,000)	(248,320)
Tax revenues	—	—	100,000	100,000
Total nonoperating revenues (expenses)	$ 211,765	$ 101,432	$ 31,005	$ 344,202
Income (loss) before operating transfers	$(132,749)	$ 5,183	$ 1,433	$ (126,133)
Operating transfers from primary government	150,000	—	25,000	175,000
Net income	$ 17,251	$ 5,183	$ 26,433	$ 48,867
Fund equity—Beginning	4,314,750	3,761,271	1,369,011	9,445,032
Contributions—Capital grants	125,000	275,000	—	400,000
Fund equity—Ending	$4,457,001	$4,041,454	$1,395,444	$9,893,899

157. Example 2 presents the same reporting entity as illustrated in Example 1. In this example, however, the component units are presented using a multiple-column approach. The combined balance sheet displays the component units in two separate columns, one for components that use governmental fund accounting and the other for component units that use proprietary fund accounting. In addition, the Parks and Recreation Commission's golf course operation (an enterprise fund) is reported separately from its governmental fund–type activities, in the combined and combining statements of revenues, expenses, and changes in fund equity and the statements of revenues, expenditures, and changes in fund equity, respectively. [**Note:** The proprietary fund activities need not be disaggregated from a *particular* component unit's other activities even if separate columns are used for "governmental fund component units" and "proprietary fund component units."]

Example 2

Combined Balance Sheet

	Primary Govt's Fund Types and Account Groups	**Totals—Memorandum Only Primary Government**	**Component Units**		**Totals—Memorandum Only Reporting Entity**
			Governmental	**Proprietary**	
Assets:					
Cash		$ 1,923,605	$1,083,280	$ 573,680	$ 3,580,565
Investments		1,679,250	371,199	522,028	2,572,477
Receivables, net		1,214,106	43,253	44,076	1,301,435
Investment in joint venture	[Primary government	2,300,000	—	—	2,300,000
Due from component units	fund-type and account group data	65,000	—	—	65,000
Lease receivable from primary government	displayed as appropriate.]	—	—	810,000	810,000
Fixed assets, net		11,711,359	7,836,545	11,355,032	30,902,936
Amounts to be provided		6,406,000	193,000	—	6,599,000
Total assets		$25,299,320	$9,527,277	$13,304,816	$48,131,413

Combined Balance Sheet (continued)

	Primary Govt's Fund Types and Account Groups	**Totals— Memorandum Only Primary Government**	**Component Units**		**Totals— Memorandum Only Reporting Entity**
			Governmental	**Proprietary**	
Liabilities:					
Accounts payable		$167,492	$ 471,115	$ 262,595	$901,202
Due to primary government		—	—	65,000	65,000
Lease payable to component unit		810,000	—	—	810,000
Revenue bonds payable		—	—	2,776,000	2,776,000
General obligation bonds payable	[Primary government	6,406,000	193,000	—	6,599,000
Total liabilities	fund-type and account group data displayed as appropriate.]	$7,383,492	$ 664,115	$ 3,103,595	$11,151,202
Equity:					
Investments in general fixed assets		$7,326,500	$7,836,545	—	$15,163,045
Contributed capital		5,228,666	—	$ 8,841,640	14,070,306
Retained earnings		2,177,156	—	1,359,581	3,536,737
Fund balances		3,183,506	1,026,617	—	4,210,123
Total equity		$17,915,828	$8,863,162	$10,201,221	$36,980,211
Total liabilities and equity		$25,299,320	$9,527,277	$13,304,816	$48,131,413

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

	Primary Govt's Governmental Fund Types	Totals— Memorandum Only Primary Government	Component Units	Totals— Memorandum Only Reporting Entity
Revenues:				
Taxes		$1,451,187	$675,327	$2,126,514
Intergovernmental		2,309,100	233,474	2,542,574
Licenses and permits		191,700	13,942	205,642
Total revenues	[Primary government fund-type data displayed as appropriate.]	$3,951,987	$922,743	$4,874,730
Expenditures:				
Current:				
General government		$1,078,375	$233,587	$1,311,962
Public safety		738,295	—	738,295
Highways and streets		502,400	—	502,400
Education		—	658,923	658,923
Capital outlay		1,439,100	102,500	1,541,600
Debt service—Principal		315,500	33,400	348,900
Interest		368,420	14,800	383,220
Total expenditures		$4,442,090	$1,043,210	$5,485,300
Other Financing Sources (Uses):	[Primary government fund-type data displayed as appropriate.]			
Proceeds of general obligation bonds		$1,365,500	—	$1,365,500
Operating transfers in		77,030	$100,000	177,030
Operating transfers out		(74,500)	—	(74,500)
Operating transfers to component units		(275,000)	—	(275,000)
Total other financing sources (uses)		$1,093,030	$100,000	$1,193,030
Excess of revenues and other sources over (under) expenditures and other uses		$ 602,927	$ (20,467)	$ 582,460
Fund balances—beginning		1,213,328	1,047,084	2,260,412
Fund balances—ending		$1,816,255	$1,026,617	$2,842,872

Combined Statement of Revenues, Expenses, and Changes in Fund Equity

	Primary Govt's Proprietary and Similar Trust Funds	Totals— Memorandum Only Primary Government	Component Units	Totals— Memorandum Only Reporting Entity
Operating Revenues:				
Charges for services		$760,150	$1,239,247	$ 1,999,397
Interest		30,940	—	30,940
Contributions		60,686	—	60,686
Total operating revenues		$851,776	$1,239,247	$ 2,091,023
	[Primary			
Operating Expenses:	government			
Cost of services	fund-type	$430,304	$1,049,761	$ 1,480,065
General and administrative	data displayed	100,076	189,794	289,870
Depreciation	as appropriate.]	148,550	469,852	618,402
Benefit payments		21,000	—	21,000
Refunds		25,745	—	25,745
Total operating expenses		$725,675	$1,709,407	$ 2,435,082
Operating income (loss)		$126,101	$ (470,160)	$ (344,059)

Combined Statement of Revenues, Expenses, and Changes in Fund Equity (continued)

	Primary Govt's Proprietary and Similar Trust Funds	Totals—Memorandum Only Primary Government	Component Units	Totals—Memorandum Only Reporting Entity
Nonoperating Revenues (Expenses):				
Operating grants		$ 55,000	$410,000	$ 465,000
Net income from joint venture		145,000	—	145,000
Interest revenue		8,830	84,697	93,527
Interest expense and fiscal changes		(62,988)	(248,320)	(311,308)
Tax revenues	[Primary	—	100,000	100,000
Total nonoperating revenues (expenses)	government fund-type	$ 145,842	$ 346,377	$ 492,219
Income (loss) before operating transfers	data displayed as appropriate.]	$ 271,943	$(123,783)	$148,160
Operating transfers in		65,000	—	65,000
Operating transfers from primary government		—	175,000	175,000
Operating transfers out		(67,530)	—	(67,530)
Net income		$ 269,413	$ 51,217	$ 320,630
Fund equity—Beginning		7,830,994	9,750,004	17,580,998
Contributions		672,666	400,000	1,072,666
Fund equity—Ending		$8,773,073	$10,201,221	$18,974,294

158. The following illustrations demonstrate the relationship between the component unit data that are discretely presented in the combined financial statements and the supporting information provided in the CAFRs of the discretely presented component units. Separate combining statements should be presented for each column in the combined statements. The data in the total columns on these combining statements should be reported in the corresponding component units column in the appropriate combined statement for the reporting entity.

159. These examples illustrate the combining balance sheets and operating statements for the governmental funds and proprietary funds of the component units that predominantly use governmental and proprietary fund accounting. A combining cash flows statement should also be presented for the component units that use proprietary fund accounting. Note that combining statements may be presented in the GPFS in lieu of the individual component unit disclosures required by paragraph 51.

Example 2

Combining Balance Sheet—Component Unit Governmental Funds

	School District	Parks and Recreation Commission	Totals
Assets:			
Cash	$714,738	$368,542	$1,083,280
Investments	312,751	58,448	371,199
Receivables, net	41,446	1,807	43,253
Fixed assets, net	5,173,340	2,663,205	7,836,545
Amounts to be provided	125,000	68,000	193,000
Total assets	$6,367,275	$3,160,002	$9,527,277
Liabilities:			
Accounts payable	$275,530	$195,585	$471,115
General obligation bonds payable	125,000	68,000	193,000
Total liabilities	$ 400,530	$263,585	$ 664,115
Equity:			
Investment in general fixed assets	$5,173,340	$2,663,205	$7,836,545
Fund balances	793,405	233,212	1,026,617
Total equity	$5,966,745	$2,896,417	$8,863,162
Total liabilities and equity	$6,367,275	$3,160,002	$9,527,277

Combining Balance Sheet—Component Unit Proprietary Funds

	Parks and Recreation Commission	Transit Authority	Airport Authority	Convention Center Authority	Totals
Assets:					
Cash	$ 71,459	$ 278,208	$ 93,152	$ 130,861	$ 573,680
Investment	36,255	135,679	275,022	75,072	522,028
Receivables, net	5,750	1,083	15,891	21,352	44,076
Lease receivable from primary government	—	—	810,000	—	810,000
Fixed assets, net	300,000	4,174,004	3,175,050	3,705,978	11,355,032
Total assets	$413,464	$4,588,974	$4,369,115	$3,933,263	$13,304,816
Liabilities:					
Accounts payable	$106,142	$ 66,973	$ 51,661	$37,819	$ 262,595
Due to primary government	—	65,000	—	—	65,000
Revenue bonds payable	—	—	276,000	2,500,000	2,776,000
Total liabilities	$106,142	$131,973	$ 327,661	$2,537,819	$3,103,595
Equity:					
Contributed capital	$141,140	$3,900,500	$3,550,000	$1,250,000	$ 8,841,640
Retained earnings	166,182	556,501	491,454	145,444	1,359,581
Total equity	$307,322	$4,457,001	$4,041,454	$1,395,444	$10,201,221
Total liabilities and equity	$413,464	$4,588,974	$4,369,115	$3,933,263	$13,304,816

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Component Units

	School District	Parks and Recreation Commission	Totals
Revenues:			
Taxes	$552,175	$123,152	$675,327
Intergovernmental	176,106	57,368	233,474
Licenses and permits	—	13,942	13,942
Total revenues	$728,281	$194,462	$922,743
Expenditures:			
Current:			
General government	—	$233,587	$233,587
Education	$658,923	—	658,923
Capital outlay	75,000	27,500	102,500
Debt service—Principal	20,000	13,400	33,400
Interest	10,000	4,800	14,800
Total expenditures	$763,923	$279,287	$1,043,210
Other Financing Sources (Uses):			
Operating transfers from primary government	—	$100,000	$ 100,000
Total other financing sources (uses)	—	$100,000	$ 100,000
Excess of revenues and other sources over (under) expenditures and other uses	$ (35,642)	$ 15,175	$ (20,467)
Fund balances—Beginning	829,047	218,037	1,047,084
Fund balances—Ending	$793,405	$233,212	$1,026,617

Combining Statement of Revenues, Expenses, and Changes in Fund Equity—Component Units

	Parks and Recreation Commission	Transit Authority	Airport Authority	Convention Center Authority	Totals
Operating Revenues:					
Charges for services	$ 49,616	$ 350,677	$ 524,293	$ 314,661	$ 1,239,247
Total operating revenues	$ 49,616	$ 350,677	$ 524,293	$ 314,661	$ 1,239,247
Operating Expenses:					
Cost of services	$ 31,753	$ 413,993	$ 402,632	$ 201,383	$ 1,049,761
General and administrative	7,938	72,498	59,158	50,200	189,794
Depreciation	9,750	208,700	158,752	92,650	469,852
Total operating expenses	$ 49,441	$ 695,191	$ 620,542	$ 344,233	$ 1,709,407
Operating income (loss)	$ 175	$ (344,514)	$ (96,249)	$ (29,572)	$ (470,160)
Nonoperating Revenues (Expenses):					
Operating grants	—	$ 200,000	$ 60,000	$ 150,000	$ 410,000
Interest revenue	$ 2,175	11,765	64,752	6,005	84,697
Interest expense and fiscal charges	—	—	(23,320)	(225,000)	(248,320)
Tax revenues	—	—	—	100,000	100,000
Total nonoperating revenues (expenses)	$ 2,175	$ 211,765	$ 101,432	$ 31,005	$ 346,377
Income (loss) before operating transfers	$ 2,350	$ (132,749)	$ 5,183	$ 1,433	$ (123,783)
Operating transfers from primary government	—	150,000	—	25,000	175,000
Net income	$ 2,350	$ 17,251	$ 5,183	$ 26,433	$ 51,217
Fund equity—Beginning	304,972	4,314,750	3,761,271	1,369,011	9,750,004
Contributions—Capital grants	—	125,000	275,000	—	400,000
Fund equity—Ending	$307,322	$4,457,001	$4,041,454	$1,395,444	$10,201,221

160. Example 3 presents a reporting entity that includes a general purpose local government and two discretely presented component units. The Transit Authority and the Airport Authority both use proprietary fund accounting. Because of the small number of component units in this example, the reporting entity has chosen to present each component unit in a separate column rather than combine them into a single column. In addition, because all of the data required by paragraphs 50 and 51 for individual component units is presented in the combined statements in the GPFS, neither the combining statements nor the individual component unit disclosures are required.

Example 3

Combined Balance Sheet

	Primary Govt's Fund Types and Account Groups	Totals—Memorandum Only Primary Government	Component Units		Totals—Memorandum Only Reporting Entity
			Transit Authority	Airport Authority	
Assets:					
Cash		$ 1,923,605	$278,208	$ 93,152	$ 2,294,965
Investments		1,679,250	135,679	275,022	2,089,951
Receivables, net		1,214,106	1,083	15,891	1,231,080
Investment in joint venture	[Primary government	2,300,000	—	—	2,300,000
Due from component units	fund-type and	65,000	—	—	65,000
Lease receivable from primary government	account group data displayed	—	—	810,000	810,000
Fixed assets, net	as appropriate.]	11,711,359	4,174,004	3,175,050	19,060,413
Amounts to be provided		6,406,000	—	—	6,406,000
Total assets		$25,299,320	$ 4,588,974	$4,369,115	$34,257,409

Combined Balance Sheet (continued)

	Primary Govt's Fund Types and Account Groups	**Totals— Memorandum Only Primary Government**	**Component Units** **Transit Authority**	**Airport Authority**	**Totals— Memorandum Only Reporting Entity**
Liabilities:					
Accounts payable		$167,492	$ 66,973	$ 51,661	$ 286,126
Due to primary government		—	65,000	—	65,000
Lease payable to component unit		810,000	—	—	810,000
Revenue bonds payable		—	—	276,000	276,000
General obligation bonds payable	[Primary government	6,406,000	—	—	6,406,000
Total liabilities	fund-type and account group data displayed	$ 7,383,492	$ 131,973	$ 327,661	$ 7,843,126
Equity:	as appropriate.]				
Investments in general fixed assets		$ 7,326,500	—	—	$ 7,326,500
Contributed capital		5,228,666	$3,900,500	$3,550,000	12,679,166
Retained earnings		2,177,156	556,501	491,454	3,225,111
Fund balance		3,183,506	—	—	3,183,506
Total equity		$17,915,828	$4,457,001	$4,041,454	$26,414,283
Total liabilities and equity		$25,299,320	$4,588,974	$4,369,115	$34,257,409

Combined Statement of Revenues, Expenses, and Changes in Fund Equity

	Primary Govt's Proprietary and Similar Trust Funds	Totals— Memorandum Only Primary Government	Component Units — Transit Authority	Component Units — Airport Authority	Totals— Memorandum Only Reporting Entity
Operating Revenues:					
Charges for services		$ 760,150	$ 350,677	$ 524,293	$ 1,635,120
Interest		30,940	—	—	30,940
Contributions		60,686	—	—	60,686
Total operating revenues	[Primary government fund-type data displayed as appropriate.]	$ 851,776	$ 350,677	$ 524,293	$ 1,726,746
Operating Expenses:					
Cost of services		$ 430,304	$ 413,993	$ 402,632	$ 1,246,929
General and administrative		100,076	72,498	59,158	231,732
Depreciation		148,550	208,700	158,752	516,002
Benefit payments		21,000	—	—	21,000
Refunds		25,745	—	—	25,745
Total operating expenses		$ 725,675	$ 695,191	$ 620,542	$ 2,041,408
Operating income (loss)		$ 126,101	$ (344,514)	$ (96,249)	$ (314,662)

Combined Statement of Revenues, Expenses, and Changes in Fund Equity (continued)

	Primary Govt's Proprietary and Similar Trust Funds	Totals—Memorandum Only Primary Government	Component Units: Transit Authority	Component Units: Airport Authority	Totals—Memorandum Only Reporting Entity
Nonoperating Revenues (Expenses):					
Operating grants		$ 55,000	$ 200,000	$ 60,000	$ 315,000
Net income from joint venture		145,000	—	—	145,000
Interest revenue		8,830	11,765	64,752	85,347
Interest expense and fiscal charges	[Primary government fund-type data displayed as appropriate.]	(62,988)	—	(23,320)	(86,308)
Total nonoperating revenues (expenses)		$ 145,842	$ 211,765	$ 101,432	$ 459,039
Income (loss) before operating transfers		$ 271,943	$ (132,749)	$ 5,183	$ 144,377
Operating transfers in		65,000	—	—	65,000
Operating transfers from primary government		—	150,000	—	150,000
Operating transfers out		(67,530)	—	—	(67,530)
Net income		$ 269,413	$ 17,251	$ 5,183	$ 291,847
Fund equity—Beginning		7,830,994	4,314,750	3,761,271	15,907,015
Contributions—Capital grants		672,666	125,000	275,000	1,072,666
Fund equity—Ending		$8,773,073	$4,457,001	$4,041,454	$17,271,528

Appendix G

CODIFICATION INSTRUCTIONS

161. The sections that follow update the May 31, 1990 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the Codification.

* * *

SUMMARY STATEMENT OF PRINCIPLES **SECTION 1100**

Sources: [Revise as follows:] NCGA Statement 1
NCGA Interpretation 5
GASB Statement 5
GASB Statement 6
GASB Statement 9
GASB Statement 14

.112 [Revise paragraph as follows:]

a. [Not affected.]
b. A comprehensive annual financial report should be prepared and published, covering all funds and account groups of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section; appropriate combined, combining, and individual fund statements; notes to the financial statements; required supplementary information; schedules; narrative explanations; and statistical tables. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100, "Defining the Financial Reporting Entity."
c. General purpose financial statements of the reporting entity may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to the fair presentation of financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities.
d. As discussed in Section 2100, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that

exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

e. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. [NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶13, ¶15, and ¶17; GASBS 5, ¶7; GASBS 6, ¶17; GASBS 9, ¶6; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66]

* * *

FUND ACCOUNTING **SECTION 1300**

Sources: [Add the following:] GASB Statement 14

[Revise paragraph .106 as follows:]

.106 The paragraph .104 definition of the general fund precludes multiple general funds. Governments shall report only one general fund. As discussed in Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," because the primary government's general fund is usually the main operating fund of the reporting entity and often is a focal point for report users, its general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be reported as a special revenue fund. [NCGAI 9, ¶10; GASBS 14, ¶54]

Interfund Receivables and Payables

.110 [Add the following at the end of paragraph .110:] In the financial statements, *intra*-entity transactions and balances should be reported in accordance with Section 2600, paragraph .120.

* * *

CLASSIFICATION AND TERMINOLOGY **SECTION 1800**

Sources: [Add the following:] GASB Statement 14

[Add a new paragraph .108, as follows, renumbering the remaining paragraphs in the section:]

.108 Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," discusses the need for reclassification of *intra*-entity transactions in the financial statements.

* * *

FINANCIAL REPORTING **SECTION 1900**

Sources: [Revise as follows:] NCGA Statement 1
GASB Statement 5
GASB Statement 9
GASB Statement 14

[Revise the Statement of Principle as follows:]

Statement of Principle
Interim and Annual Financial Reporting

a. [Not affected.]
b. A comprehensive annual financial report should be prepared and published, covering all funds and account groups of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section; appropriate combined, combining, and individual fund statements; notes to the financial statements; required supplementary information; schedules; narrative explanations; and statistical tables. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100, "Defining the Financial Reporting Entity."
c. General purpose financial statements of the reporting entity may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations (and cash flows of those fund types

and discretely presented component units that use proprietary fund accounting). Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities.

d. As discussed in Section 2100, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

e. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. [NCGAS 1, ¶128; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66]

.102 [Revise the last sentence as follows:] Change "governmental units" to "governmental entities." [NCGAS 1, ¶129, as amended by GASBS 14; GASBS 5, ¶7]

.104 [Revise the second sentence as follows:] As discussed in paragraph .116, the comprehensive annual financial report also includes certain combining and individual fund and account group statements. [NCGAS 1, ¶131, as amended by GASBS 14, ¶50]

Annual Financial Reporting

[Revise remainder of section as follows:]

.109 Every governmental entity should prepare and publish, as a matter of public record, a *comprehensive annual financial report* (CAFR) that encompasses all funds and account groups of the primary government (including its blended component units). The

CAFR should also encompass all discretely presented component units of the reporting entity. The CAFR should contain:

a. The *general purpose financial statements* (GPFS). (See paragraphs .110-.114, below.)
b. Combining statements for the fund types of the primary government (including its blended component units). Combining statements should also be presented for the discretely presented component units.
c. Individual fund statements and schedules for the funds of the primary government (including its blended component units).

The CAFR is the governmental entity's official annual report and should also contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. The purpose of the reporting entity's financial statements is to report the combined financial position and results of operations of the primary government (including its blended component units) and provide an overview of the discretely presented component units. [NCGAS 1, ¶135, as amended by GASBS 14; GASBS 14, ¶19, ¶44, and ¶50]

.110 Governmental entities may issue GPFS separately from the CAFR. The GPFS should include the financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations (and cash flows of those funds and discretely presented component units that use proprietary fund accounting). The GPFS may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities. As noted in paragraph .104, financial statements necessary to fairly present financial position and operating results in conformity with GAAP are referred to as "basic" statements. [NCGAS 1, ¶128 and ¶131, as amended by GASBS 5, 9, and 14]

.111 The reporting entity's general purpose financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units. Because of the

closeness of their relationships with the primary government, some component units should be blended as though they are part of the primary government; however, most component units should be discretely presented. [GASBS 14, ¶11 and ¶42]

.112 GPFS may be issued for inclusion in official statements for bond offerings and for widespread distribution to users requiring less detailed information about the governmental entity's finances than is contained in the CAFR. A transmittal letter(s) from the governmental entity accompanying the separately issued GPFS should inform users of the availability of the CAFR for those requiring more detailed information. The report of the independent auditor, if an audit has been performed, should precede the basic financial statements. [NCGAS 1, ¶136 and ¶166, as amended by GASBS 14]

.113 The major differences between the GPFS and the other statements in the CAFR relate to the reporting entity focus and the reporting on finance-related legal and contractual provisions that differ from GAAP. The CAFR includes (a) both individual fund and account group data and aggregate data by fund types for the primary government (including its blended component units), and combined and combining statements for discretely presented component units, together with introductory, supplementary, and statistical information; and (b) schedules essential to demonstrate compliance with finance-related legal and contractual provisions. Presentation of the underlying fund types of an individual discretely presented component unit is not required unless that information is not available in separately issued financial statements of the component unit. [NCGAS 1, ¶137; GASBS 14, ¶19, ¶42, and ¶50]

.114 The GPFS present only aggregate data for the fund types and account groups of the primary government (including its blended component units) and aggregate data for its discretely presented component units, together with notes to the financial statements that are essential to fair presentation, including disclosures of material violations of finance-related legal and contractual provisions and other important matters that are not apparent from the face of the financial statements. Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities. A summary of standards for both the CAFR and separately issued

GPFS are set forth below and in detail in Section 2200, "Comprehensive Annual Financial Report." [NCGAS 1, ¶137; GASBS 5, ¶7; GASBS 14, ¶19 and ¶42]

The Comprehensive Annual Financial Report

.115 The CAFR of a governmental entity should contain the statements indicated below, including notes thereto, and appropriate schedules, narrative explanations, and statistical tables. It should be prepared and published promptly after the close of the fiscal year and should contain the report of the independent auditor, if an audit has been performed, together with a letter(s) of transmittal and such other information as management deems appropriate. [NCGAS 1, ¶138, as amended by GASBS 14]

.116 The general outline and minimum content of the CAFR of a governmental entity (with references to detailed discussion sections in this Codification) are as follows:

a. **Introductory Section**
(Table of contents, letter(s) of transmittal, and other material deemed appropriate by management)

b. **Financial Section**
   (1) **Auditor's Report**
   (2) **General Purpose Financial Statements (GPFS)**
   (Combined Statements—Overview)
      (a) Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units.[1]
      (b) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units.[2]
      (c) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which annual budgets have been legally adopted). (See Section 2400, "Budgetary Reporting.")
      (d) Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Discretely Presented Component Units.[3]

[1]Combining statements may also be presented to satisfy the individual discretely presented component unit disclosures required by Section 2600, paragraph .114, and to satisfy segment information disclosure requirements for operating statements of enterprise funds as discussed in Section 2500, "Segment Information for Enterprise Funds." [GASBS 14, ¶51]
[2]See footnote 1.
[3]See footnote 1.

(e) Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units. (See Section 2450, "Cash Flows Statements.")
(f) Notes to the financial statements. (See Section 2300, "Notes to Financial Statements.")
(g) Required Supplementary Information.

(Trust fund operations may be reported in (b), (d), and (e) above, as appropriate, or separately.)

(3) **Combining and Individual Fund and Account Group Statements andSchedules**

(a) Combining Statements
(i) By Fund Type—when a primary government (including its blended component units) has more than one fund of a given fund type.
(ii) For Discretely Presented Component Units—when the reporting entity has more than one component unit. Combining statements by fund type for individual component units are also required if information about the underlying fund types of an individual component unit is not available in separately issued financial statements of the individual component unit.

(b) Individual Fund and Account Group Statements—when a primary government (including its blended component units) has only one fund of a given type and for account groups if necessary to present prior-year and budgetary comparisons.

(c) Schedules
(i) Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.
(ii) Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (for example, taxes receivable, including delinquent taxes; long-term debt; investments; and cash receipts, disbursements, and balances).
(iii) Schedules to present greater detail for information reported in the statements (for example, additional revenue sources detail and object of expenditure data by departments).

(Narrative explanations useful in understanding combining and individual fund, account group, and component unit statements and schedules that are not included in the notes to the financial statements should be presented on divider pages, directly on the statements and schedules, or in a separate section.)

c. **Statistical Tables**

(See Section 2800.)

Section 2200 presents a detailed discussion of the CAFR. [NCGAS 1, ¶139; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶19 and ¶50]

The Financial Reporting "Pyramid"

.117 The financial section of the CAFR may be viewed as a "reporting pyramid" (Illustration 1). The governmental entity need go only as far down the reporting pyramid—in terms of increasing levels of detail—as necessary to report the financial position and operating results of its individual funds, account groups, and component units; to demonstrate compliance with finance-related legal and contractual requirements; and to assure adequate disclosure at the individual fund and component unit level. Those statements and schedules necessary for these purposes are *required;* others are *optional.* [NCGAS 1, ¶140, as amended by GASBS 14]

Illustration 1 [Revise pyramid level (b) as follows:]

Combining statements—by fund type and for discretely presented component units

.118 The levels of the pyramid are:

a. *General Purpose Financial Statements (Combined Statements—Overview).* These basic financial statements provide a summary overview of the financial position and operating results of the reporting entity. They also serve as an introduction to the more detailed statements and schedules that follow. Separate columns should be used for each fund type and account group of the primary government. The statements should also include one or more separate columns to display the financial position and operating results of the discretely presented component units.

b. *Combining Statements.*

   (1) *By Fund Type.* When a primary government (including its blended component units) has more than one fund of a given type (for example, special revenue funds), combining statements for all funds of that type should be presented in a columnar format. The total columns of these combining statements should agree with the amounts presented in the GPFS. (In some instances, disclosure sufficient to meet CAFR reporting objectives may be achieved at this level; in other cases, these statements "link" the GPFS and the individual fund statements.)

   (2) *For Discretely Presented Component Units.* When a reporting entity has more than one discretely presented component unit, the total columns of these combining statements should agree with the amounts presented in the GPFS. (Combining statements would not be required if a governmental entity presents each component unit in a separate column in the GPFS.) Statements that present the underlying fund types of a individual discretely presented component unit are also required to be presented if the information is not available in separately issued financial statements of the component unit.

c. *Individual Fund and Account Group Statements.* These statements present information on the individual funds and account groups of the primary government where (1) a primary government (including its blended component units) has only one fund of a specific type, or (2) detail to assure disclosure sufficient to meet CAFR reporting objectives is not presented in the combining statements. These statements may also be used to present budgetary data and prior-year comparative data for the funds and account groups of the primary government.

d. *Schedules.* Data presented in schedules are not necessary for fair presentation in conformity with GAAP unless referenced in the notes to the financial statements. Schedules are used (1) to demonstrate finance-related legal and contractual compliance (for example, where bond indentures require specific data to be presented); (2) to present other information deemed useful (for example, combined and combining schedules that encompass more than one fund or account group, such as a Combined Schedule of Cash Receipts, Disbursements, and Balances—All Funds); and (3) to provide details of data summarized in the financial statements (for example, schedules of revenues, expenditures, transfers). [NCGAS 1, ¶141; GASBS 14, ¶19, ¶43, and ¶50]

.119 All four pyramid levels of detail may be required in some circumstances. On the other hand, adequate disclosure may require only one or two levels. Determination of the appropriate level of detail—and the distinction as to what is presented in a statement as opposed to a schedule—is a matter of professional judgment. [NCGAS 1, ¶142]

Component Unit Financial Statements

.120 [GASBS 14, ¶65] [Change "Statement" to "section" and change cross-references.]

Other Stand-Alone Government Financial Statements

.121 [GASBS 14, ¶66] [Change "Statement" to "section" and change cross-references.]

Primary Government Separate Financial Statements

.122 A primary government may find it useful or necessary (for example, to satisfy specific legal requirements) to issue financial statements that do not include the financial data of its component units. The provisions of Section 2100 apply to reporting by primary governments; thus, financial statements that present only the data of the primary government should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted

accounting principles. [GASBS 14, ¶64]

.123 Similarly, component units and other stand-alone governments may find it useful or necessary to issue financial statements that do not include the financial data of their component units. Financial statements that present only the data of the component unit or other stand-alone government also should acknowledge that the financial statements do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles. [GASBS 14, ¶65 and ¶66]

.124 [Insert current Codification paragraph .117.]

* * *

[Revise entire section, including section title, as follows:]

DEFINING THE FINANCIAL REPORTING ENTITY SECTION 2100

Source: GASB Statement 14

Scope of This Section

.101 This section establishes standards for defining the **financial reporting entity.**[1] The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by **primary governments,** governmental **joint ventures, jointly governed organizations,** and **other stand-alone governments;** and it applies to the separately issued financial statements of governmental **component units.** This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. In addition, this section should be applied to governmental and nongovernmental component units when included

[1]Terms defined in paragraph .501, "Glossary," are printed in **boldface type** the first time they are used. Section 2200, "Comprehensive Annual Financial Report," paragraph .136, also uses the term "entity" to refer to the level of aggregation to be used in the financial reports of a governmental entity.

in a governmental financial reporting entity. Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," provides guidance for reporting the financial data of the organizations that make up the financial reporting entity. [GASBS 14, ¶1 and ¶9]

Background

.102–.108 [GASBS 14, ¶2–¶8] [Change cross-reference.]

The Financial Reporting Entity Concept

.109–.110 [GASBS 14, ¶10–¶11]

Definition of the Financial Reporting Entity

.111 [GASBS 14, ¶12] [Change "Statement" to "section" and change cross-references.]

Primary Governments

.112–.117 [GASBS 14, ¶13–¶18] [Change "Statement" to "section" and change cross-references.]

Reporting the Primary Government

.118 [GASBS 14, ¶19] [Change cross-reference.]

Component Units

.119–.140 [GASBS 14, ¶20–¶41] [Change "Statement" to "section" and change cross-references.]

Reporting Component Units

.141 Financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with

the primary government, some component units should be blended as though they are part of the primary government; however, most component units should be discretely presented. Both blending and discrete presentation are discussed in Section 2600. [GASBS 14, ¶42]

.142 [GASBS 14, ¶43] [Change "Statement" to "section."]

Reporting Requirements for Financial Reports of Component Units, Joint Ventures, and Jointly Governed Organizations

.143 The provisions of this section apply to separate financial reporting by component units, joint ventures, and jointly governed organizations. Section 2600 provides guidance on presenting component unit financial information, both in combined financial reports of the reporting entity and in separately issued component unit financial reports. Section J50, "Accounting for Participation in Joint Ventures and Jointly Governed Organizations," provides guidance on reporting an entity's participation in a joint venture. [GASBS 14, ¶9]

DEFINITIONS

.501 [GASBS 14, Appendix B] [Change "Statement" to "section."]

NONAUTHORITATIVE DISCUSSION

Flowchart for Evaluating Potential Component Units

.601 [GASBS 14, Appendix C] [Change "Statement" to "section" and change cross-references.]

Illustrative Examples

.602–.620 [GASBS 14, Appendix D] [Change "Statement" to "section" and change cross-references.]

Illustrative Disclosures and Financial Statement Formats

.621 Section 2600, paragraphs .602–.607, present illustrative disclosures and financial statement formats for the financial reporting entity.

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Revise as follows:] NCGA Statement 1
AICPA Statement of Position 80-2
GASB Statement 5
GASB Statement 6
GASB Statement 9
GASB Statement 14

[Revise entire section as follows:]

Statement of Principle
Annual Financial Reporting

a. A comprehensive annual financial report should be prepared and published, covering all funds and account groups of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section; appropriate combined, combining, and individual fund statements; notes to the financial statements; required supplementary information; schedules; narrative explanations; and statistical tables. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100, "Defining the Financial Reporting Entity."
b. General purpose financial statements of the reporting entity may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities.
c. As discussed in Section 2100, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for

which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

d. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. [NCGAS 1, ¶128; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66]

Annual Financial Reporting

.101 Every governmental entity should prepare and publish, as a matter of public record, a *comprehensive annual financial report* (CAFR) that encompasses all funds and account groups of the primary government (including its blended component units). The CAFR should also encompass all discretely presented component units of the reporting entity. The CAFR should contain:

a. The *general purpose financial statements* (GPFS). (See paragraphs .110–.114, below.)
b. Combining statements for the fund types of the primary government (including its blended component units). Combining statements should also be presented for the discretely presented component units.
c. Individual fund statements and schedules for the funds of the primary government (including its blended component units).

The CAFR is the governmental entity's official annual report and should also contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. The purpose of the reporting entity's financial statements is to report the combined financial position and

results of operations of the primary government (including its blended component units) and provide an overview of the discretely presented component units. [NCGAS 1, ¶135, as amended by GASBS 14; GASBS 14, ¶19, ¶44, and ¶50]

.102 Governmental entities may issue GPFS separately from the CAFR. The GPFS should include the financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). The GPFS may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities. As noted in paragraph .104, financial statements necessary to fairly present financial position and operating results in conformity with generally accepted accounting principles (GAAP) are referred to as "basic" statements. [NCGAS 1, ¶128 and ¶131, as amended by GASBS 5, 9, and 14]

.103 The reporting entity's GPFS should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, some component units should be blended as though they are part of the primary government; however, most component units should be discretely presented. [GASBS 14, ¶11 and ¶42]

.104 GPFS may be issued for inclusion in official statements for bond offerings and for widespread distribution to users requiring less detailed information about the governmental entity's finances than is contained in the CAFR. A transmittal letter(s) from the governmental entity accompanying the separately issued GPFS should inform users of the availability of the CAFR for those requiring more detailed information. The report of the independent auditor, if an audit has been performed, should precede the basic financial statements. [NCGAS 1, ¶136 and ¶166, as amended by GASBS 14]

.105 The major differences between the GPFS and the other statements in the CAFR relate to the reporting entity focus and the reporting on finance-related legal and contractual provisions that differ from GAAP. The CAFR includes (a) both individual fund and account group data and aggregate data by fund types for the primary government (including its blended component units), and combined and combining statements for discretely presented component units, together with introductory, supplementary, and statistical information; and (b) schedules essential to demonstrate compliance with finance-related legal and contractual provisions. Presentation of the underlying fund types of an individual discretely presented component unit is not required unless that information is not available in separately issued financial statements of the component unit. [NCGAS 1, ¶137; GASBS 14, ¶19, ¶42, and ¶50]

.106 The GPFS present only aggregate data for the fund types and account groups of the primary government (including its blended component units) and aggregate data for its discretely presented component units, together with notes to the financial statements that are essential to fair presentation, including disclosures of material violations of finance-related legal and contractual provisions and other important matters that are not apparent from the face of the financial statements. Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities. A summary of standards for both the CAFR and separately issued GPFS are set forth below. [NCGAS 1, ¶137; GASBS 5, ¶7; GASBS 14, ¶19 and ¶42]

The Comprehensive Annual Financial Report

.107 The CAFR of a governmental entity should contain the statements indicated below, including notes thereto, and appropriate schedules, narrative explanations, and statistical tables. It should be prepared and published promptly after the close of the fiscal year and should contain the report of the independent auditor, if an audit has been performed, together with a letter(s) of transmittal and such other information as management deems appropriate. [NCGAS 1, ¶138, as amended by GASBS 14]

.108 The general outline and minimum content of the CAFR of a governmental entity (with references to detailed discussion sections in this Codification) are as follows:

a. **Introductory Section**
(Table of contents, letter(s) of transmittal, and other material deemed appropriate by management)

b. **Financial Section**

(1) **Auditor's Report**

(2) **General Purpose Financial Statements (Combined Statements—Overview)**

(a) Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units.[1]

(b) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units.[2]

(c) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which annual budgets have been legally adopted). (See Section 2400, "Budgetary Reporting.")

(d) Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Discretely Presented Component Units.[3]

(e) Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units. (See Section 2450, "Cash Flows Statements.")

(f) Notes to the financial statements. (See Section 2300, "Notes to Financial Statements.")

(g) Required supplementary information.

(Trust fund operations may be reported in (b), (d), and (e) above, as appropriate, or separately.)

(3) **Combining and Individual Fund and Account Group Statements andSchedules**

(a) Combining Statements

(i) By Fund Type—when a primary government (including its blended component units) has more than one fund of a given fund type.

(ii) For Discretely Presented Component Units—when the reporting entity has more than one component unit. Combining statements by fund type for individual component units are also required if

[1]Combining statements may also be presented to satisfy the individual discretely presented component unit disclosures required by Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," paragraph .114, and to satisfy segment information disclosure requirements for operating statements of enterprise funds as discussed in Section 2500, "Segment Information for Enterprise Funds." [GASBS 14, ¶51]

[2]See footnote 1.

[3]See footnote 1.

information about the underlying fund types of an individual component unit is not available in separately issued financial statements of the individual component unit.

(b) Individual Fund and Account Group Statements—when a primary government (including its blended component units) has only one fund of a given type and for account groups if necessary to present prior-year and budgetary comparisons.

(c) Schedules

(i) Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

(ii) Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (for example, taxes receivable, including delinquent taxes; long-term debt; investments; and cash receipts, disbursements, and balances).

(iii) Schedules to present greater detail for information reported in the statements (for example, additional revenue sources detail and object of expenditure data by departments).

(Narrative explanations useful in understanding combining and individual fund, account group, and component unit statements and schedules that are not included in the notes to the financial statements should be presented on divider pages, directly on the statements and schedules, or in a separate section.)

c. **Statistical Tables**

(See Section 2800, "Statistical Tables.")

[NCGAS 1, ¶139; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶19 and ¶50]

CAFR Financial Statements and Schedules

.109 As discussed in paragraph .108, the balance sheets, operating statements, and schedules required in the CAFR for a governmental entity (with references to the examples provided in paragraphs .601-.610) are:

a. **Balance Sheets**

(1) Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units (paragraph .603).

(2) Combining balance sheets (paragraph .608).

(3) Individual balance sheets and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

b. **Operating Statements**

(1) Governmental Funds

(a) A Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units (paragraph .604).

(b) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types

(and similar governmental fund types of the primary government for which annual budgets have been legally adopted). (See Section 2400 and paragraph .605 of this section.)

(c) Combining statements of governmental fund revenues, expenditures, and changes in fund balances (paragraph .608).

(d) Individual statements of revenues, expenditures, and changes in fund balance (paragraph .609) and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

(2) Proprietary Funds

(a) A Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Discretely Presented Component Units (paragraph .606).

(b) A Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units. (See Section 2450, paragraph .601.)

(c) Combining statements of proprietary fund revenues, expenses, and changes in retained earnings (or equity).

(d) Combining statements of cash flows.

(e) Individual statements of revenues, expenses, and changes in retained earnings (or equity) and of cash flows and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

(3) Fiduciary Funds

(a) Expendable trust funds are similar to governmental funds (modified accrual basis) and should be reported as indicated in b(1) above; nonexpendable trust and pension trust funds are similar to proprietary funds (accrual basis) and should be reported as indicated in b(2) above, except that pension trust funds are not required to present a statement of cash flows.

(b) At the GPFS (Combined Statements—Overview) level, trust fund operating statements may be presented (i) separately or (ii) within the combined operating statements of the governmental funds and the proprietary funds, as appropriate.

(c) A Combining Statement of Changes in Assets and Liabilities—All Agency Funds (paragraph .610).[4]

(4) Account Groups

(a) Statement of Changes in General Fixed Assets (unless sufficiently disclosed in the notes to the financial statements).

(b) Statement of Changes in General Long-Term Debt (unless sufficiently disclosed in the notes to the financial statements). [NCGAS 1, ¶143; GASBS 9, ¶6; GASBS 14, ¶19, ¶44, and ¶50]

[4]This statement is not an operating statement *per se*, but is necessary to disclose the changes in the government's custodial responsibilities. [NCGAS 1, fn24]

Financial Statement Presentation Guidelines

.110 Financial statements should present data summarized appropriately to their pyramid level. (See Section 1900, "Financial Reporting," paragraphs .117-.119.) As discussed in Section 2600, most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in a column(s) separate from the financial data of the primary government. The financial statements must be accompanied by (a) the notes to the financial statements, including the Summary of Significant Accounting Policies, (b) required supplementary information, (c) schedules, and (d) narrative explanations of combining, individual fund, account group, and component unit statements and schedules. Prior-year and budgetary comparison data for individual funds and account groups usually are more readily presented in individual fund statements or schedules rather than in the combined or combining statements. Presentation of the underlying fund types of the individual discretely presented component units is not required unless such information is not available in separately issued financial statements of the component unit. [NCGAS 1, ¶144, as amended by GASBS 14; GASBS 5, ¶7; GASBS 14, ¶44 and ¶50]

.111 *Balance Sheets.* Balance sheets show financial position—the assets, liabilities, and fund balance or other equity—of an individual fund or discretely presented component unit; several funds or discretely presented component units; or all funds, account groups, and discretely presented component units of a governmental entity, at a specified date. Combined balance sheets show the data for each fund type and account group of the primary government (including its blended component units), whereas combining balance sheets present data for each fund of a given type. Both are usually presented in columnar format. The reporting entity's combined balance sheet also should include one or more columns to display the combined balance sheets of the discretely presented component units. A single column may be used regardless of whether the discretely presented component units use governmental or proprietary fund accounting or the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities* (AICPA College Guide). If a single column is used, equity of the component units may be presented using the same descriptions that are used to display the elements of

the primary government's equity. Or it may be aggregated into other classifications (for example, "Fund balance—governmental component units" or "Retained earnings—proprietary component units," or simply on a single line such as "Equity—component units"). The discrete column(s) should be located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings. [NCGAS 1, ¶145; GASBS 14, ¶19, ¶44, and ¶49]

.112 Combining financial statements for discretely presented component units should be included in the reporting entity's CAFR using the same methodology as combining statements of the fund types of the primary government. The data presented for each component unit in the combining statements generally should be its aggregated totals. As discussed in paragraph .117, the Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units may contain total columns for the primary government and the reporting entity as a whole, with or without interfund and similar eliminations. The total column of each combining balance sheet should agree with the appropriate column in the Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units. Any interfund and similar eliminations made in the combined or combining balance sheets should be apparent from the headings or disclosed in the notes to the financial statements. [NCGAS 1, ¶145; GASBS 14, ¶50]

.113 *Operating Statements.* Presentation of operating statements encompassing all revenues, expenditures, or expenses (as appropriate) and other changes in fund balance or other equity is recommended for all funds of each category (governmental and proprietary) of the primary government (including its blended component units) and for all discretely presented component units, and where necessary, for each fund of the primary government (including its blended component units). Such statements:

a. Provide a similar operating statement format for combined, combining, and individual fund statements.
b. Present all changes in the fund balance or retained earnings (or equity) during the

period, thus providing (1) an understandable summary of such changes and (2) a reconciliation of the beginning and ending balances in a single statement that is directly related to the beginning and ending balance sheets. Further, such statements may readily be related to more detailed statements and schedules.

c. Embody the all-inclusive approach, thus clarifying questions as to whether certain changes in fund balance or other equity should be reported directly in a statement of changes in equity while other changes are shown in the operating statement (for example, transfers).[5] The all-inclusive format eliminates the need for separate statements of changes in fund balance and retained earnings or equity in most cases, because such changes usually are set forth clearly under this approach. [NCGAS 1, ¶146]

.114 The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units, like such statements for the fund types, individual funds, and discretely presented component units, should contain data categorized by major revenue sources, functions (or programs) of expenditures as discussed in Section 1800, paragraphs .115-.120, and types of transfers or other changes in fund balances (paragraphs .103-.107). As in the case of the Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units, the separate fund type data of the primary government (including its blended component units) in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types should be displayed in a series of columns and may contain a total column, with or without interfund and similar eliminations. The statement should include one or more columns to display the combined revenues, expenditures, and changes in fund balances for discretely presented component units that use governmental fund accounting. The column(s) should be located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings. Total columns of combining statements of governmental fund revenues, expenditures, and changes in fund balances should agree with the appropriate column in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units. Likewise, any interfund and similar eliminations should be made apparent from the headings or disclosed in the notes

[5] See Section 1800, "Classification and Terminology," paragraphs .102–.107.

to the financial statements. Similar guidelines apply to the proprietary fund operating statements of the primary government (including its blended component units). Discrete presentation of component units that use proprietary fund accounting should be the same as the display method above for governmental fund operating statements. [NCGAS 1, ¶147; GASBS 14, ¶19, ¶45, and ¶46]

.115 [Insert current Codification paragraph .111.]

.116 *Statements of Cash Flows.* Section 2450 sets forth the standards for preparing a statement of cash flows. Statements of cash flows are required to be presented for proprietary fund types, nonexpendable trust funds, and governmental entities that use proprietary fund accounting. As described above for the other statements at the GPFS (Combined Statements—Overview) level, the Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units should present the separate data for each major fund type of the primary government (including its blended component units) in a columnar format and may contain a total column, with or without interfund eliminations. The statement should include one or more columns to display the combined cash flows for discretely presented component units that use proprietary fund accounting. The column(s) should be located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings. Total columns of combining statements of cash flows should agree with the appropriate column in the Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units. Any interfund and similar eliminations made should be consistent with eliminations made in the other financial statements and should be apparent from the headings or disclosed in the notes to the financial statements. [NCGAS 1, ¶156; GASBS 9, ¶6 and ¶36; GASBS 14, ¶19, ¶45, and ¶46]

.117 [GASBS 14, ¶49] [Change cross-reference.]

.118 *Discretely Presented Component Units with More Than One Measurement Focus.* If a discretely presented component unit uses both governmental and proprietary methods of accounting,[6] its operations may be included in a discrete column on the most appropriate operating statement (based on the component unit's principal activities), or the component unit can be disaggregated and reported in the component units column(s) on the applicable operating statements. When the single operating statement approach is used, the results of operations using the other method of accounting should be reduced to a single amount and presented as a separate line item, such as "Net income from proprietary operations" or "Excess of revenues over expenditures from governmental operations." [GASBS 14, ¶47]

.119 *Required Individual Component Unit Information.* Section 2600, paragraph .114, requires certain information to be disclosed about each major component unit included in the component units column(s) in the GPFS. The required information may be presented either (a) by including the combining statements required in paragraph .108 in the reporting entity's GPFS or (b) by presenting condensed financial statements in the notes to the reporting entity's financial statements. Section 2600 provides guidelines for either presentation. [GASBS 14, ¶51]

.120 *Combining and Individual Statements for Discretely Presented Component Units.* [GASBS 14, ¶50] [Change cross-references.]

.121 *Reporting Colleges and Universities.* The financial data of governmental colleges and universities that are considered to be part of the primary government and that apply the provisions of the AICPA College Guide should be included within the financial data of the primary government but may be presented separately from the fund types of the primary government. Rather than be reclassified and reported within the primary government's funds and account groups, the institution's balance sheet may be reported in a column separate from the fund types of the primary government, and its statement of changes in fund balances and statement of current funds revenues, expenditures, and other changes may also be presented in separate statements. [GASBS 14, ¶19]

[6] [GASBS 14, fn6]

.122 [GASBS 14, ¶48] [Change cross-reference.]

Operating Statement Format

.123 [Insert current Codification paragraph .114, revising last sentence as follows:] A governmental entity ordinarily will arrange all such statements of each fund category (governmental, proprietary, and fiduciary) and discrete presentation in the same manner to facilitate financial reporting under the pyramid concept. [NCGAS 1, ¶149, as amended by GASBS 14]

.124 [Insert current Codification paragraph .115, deleting the phrase "for governmental funds" in the first sentence.] [NCGAS 1, ¶150, as amended by GASBS 14]

.125 The income determination measurement focus of the proprietary funds of the primary government (including its blended component units) and discretely presented component units that use proprietary fund accounting limits the acceptable alternative all-inclusive operating statement formats[7] to those that are comparable to those of similar business enterprises. For illustrative purposes, the following presentation format is used for the statement of revenues, expenses, and changes in retained earnings (or equity) illustrated in paragraph .606:

Operating Revenues

Operating Expenses
Operating Income

Nonoperating Revenues (Expenses)
Income before Operating Transfers

Operating Transfers from (to) Other Funds
Net Income (Loss)

Retained Earnings—Beginning of Period
Retained Earnings—End of Period

[7][Insert current Codification footnote 6.]

[NCGAS 1, ¶151, as amended by GASBS 14]

.126 [Insert current Codification paragraph .117.]

Budgetary Comparison Statements

.127 Section 1900 requires presentation in the GPFS of a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (paragraph .605). As the name implies, this statement presents budget and actual data for the general fund and all special revenue funds of the primary government (including its blended component units). This statement should also include budget and actual data for other governmental fund types of the primary government for which annual budgets have been adopted. Only the total budget and total actual data for all Special Revenue Funds (and for every other budgeted governmental fund type of the primary government) are required. [NCGAS 1, ¶153; GASBS 14, ¶56]

.128 The minimum budget-basis presentation within the GPFS of a reporting entity is the aggregation by fund type of the appropriated budgets for those funds, as amended, compared with related actual amounts. For purposes of this presentation, the appropriated budgets are those adopted by the legislative or governing board of the primary government (and its component units that have been blended and are, as a result, reported as part of the primary government). Budgetary data for the discretely presented component units are not required to be presented in the reporting entity's combined statement of revenues, expenditures, and changes in fund balances—budget and actual. [GASBS 14, ¶56]

Notes to the Financial Statements and Narrative Explanations

.129 [Insert current Codification paragraph .120.] [NCGAS 1, ¶157]

Notes

.130 Notes essential to fair presentation in the reporting entity general purpose financial statements encompass:

a. The fund types and account groups of the primary government including its blended component units.
b. Individual discretely presented component units considering both:
   (1) The unit's significance relative to total discretely presented component units.
   (2) The nature and significance of the unit's relationship to the primary government.

Determining which discretely presented component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. Notes to the financial statements essential to fair presentation are listed in Section 2300. [GASBS 14, ¶63]

Narrative Explanations

.131 [Insert current Codification paragraph .122 and revise first sentence as follows:] Narrative explanations of combining, individual fund, and account group statements and schedules of the primary government (including its blended component units) and of combining and individual discretely presented component units should provide information *not* included in the financial statements, notes to the financial statements, and schedules that is necessary (a) to assure an understanding of those statements and schedules and (b) to demonstrate compliance with finance-related legal and contractual provisions. [NCGAS 1, ¶159, as amended by GASBS 14]

Required Supplementary Information

.132 [Insert current Codification paragraph .123.]

Statistical Tables

.133 [Insert current Codification paragraph .124.] [NCGAS 1, ¶132]

General Purpose Financial Statements

.134 In addition to the CAFR, governmental entities may issue the financial statements in the Combined Statements—Overview section of the CAFR as *general purpose financial statements.* The GPFS are designed to be "liftable" for this purpose. Such statements may be issued for inclusion in official statements for securities offerings and for widespread distribution to users requiring less detailed information about the governmental entity's finances than is contained in the CAFR. [NCGAS 1, ¶162, as amended by GASBS 14]

.135 [Insert current Codification paragraph .126 and revise the second sentence as follows:] This presumption has been questioned in recent years, however, and many accountants and financial statement users believe that fund type and account group data and aggregate data for discretely presented component units are sufficient to present fairly the government's financial position and operating results for general purpose financial reporting. [NCGAS 1, ¶163, as amended by GASBS 14]

.136 Individual funds, account groups, and component units should continue to be the basic entities reported on in the CAFR. However, the primary reporting entity focus of separately issued GPFS should be on financial information aggregated by fund type, account group, and discretely presented component units. The aggregated financial information included in the liftable GPFS (Combined Financial Statements—Overview) section of the CAFR constitutes "fair presentation in conformity with generally accepted accounting principles." However, individual discretely presented component unit disclosures and segment financial information for operating statements of enterprise funds of the primary government (including its blended component units) should be reported in the GPFS in accordance with Section 2600 (paragraph .114) and Section 2500, respectively. [NCGAS 1, ¶164; GASBS 14, ¶51 and ¶63]

.137 [Insert current Codification paragraph .128, changing "unit" to "entity."] [NCGAS 1, ¶166, as amended by GASBS 14]

.138 [Insert current Codification paragraph .129, revising the list of financial statements as follows:]

a. Combined Balance Sheet—All Fund Types, Account Groups, and Discretely Presented Component Units (paragraph .603).
b. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units (paragraph .604).
c. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which annual budgets have been legally adopted). (See Section 2400 and paragraph .605 of this section.)
d. Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Discretely Presented Component Units (paragraph .606).
e. Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units. (See Section 2450, paragraph .601.)
f. Notes to the financial statements. (See Section 2300.)
g. Required supplementary information.

[NCGAS 1, ¶167; SOP 80-2, ¶4; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶19 and ¶50]

Methods of Combination and Other Matters

.139 Section 2600 establishes standards for reporting the financial data of the organizations that make up the financial reporting entity. It provides guidance on reporting by primary governments and on reporting by component units, other stand-alone governments, joint ventures, and jointly governed organizations, whether those financial reports are issued separately or are included in other entities' financial reports. It also discusses interfund/intra-entity receivables and payables, differing reporting periods, and other presentation matters. [GASBS 14, ¶1 and ¶9]

NONAUTHORITATIVE DISCUSSION

.601-.609 [Revise illustrative statements (and related explanations) to show changes in titles and methods of presenting combined and combining statements.]

* * *

Sources: [Add the following:] GASB Statement 14

.101 [Revise paragraph as follows:] Two types of disclosure are necessary in the comprehensive annual financial report (CAFR): (a) notes to the financial statements that are essential for fair presentation at the general purpose financial statements (GPFS) (Combined Statements—Overview) level and (b) narrative explanations useful in providing an understanding of combining, individual fund, account group, and component unit statements and schedules. [NCGAS 1, ¶135 and ¶157, as amended by GASBS 14]

Notes to Financial Statements

.102 [Revise paragraph as follows:] Section 2200, "Comprehensive Annual Financial Report," requires the presentation, within "liftable" GPFS, of notes to the financial statements that are essential to present fairly the financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). Notes essential to fair presentation in the reporting entity GPFS encompass:

a. The fund types and account groups of the primary government including its blended component units.
b. Individual discretely presented component units considering both:
   (1) The unit's significance relative to total discretely presented component units.
   (2) The nature and significance of the unit's relationship to the primary government. [NCGAI 6, ¶2, as amended by GASBS 9, ¶6; GASBS 14, ¶63]

[Add new paragraphs .103A and .103B, immediately following paragraph .103, as follows:]

.103A [GASBS 14, ¶62]

.103B Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one

component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. [GASBS 14, ¶63]

.104 [Revise subparagraph a(1) as follows:]

(1) A brief description of the component units of the financial reporting entity and their relationships to the primary government. This should include a discussion of the criteria for including component units in the financial reporting entity and how the component units are reported. Also include information about how the separate financial statements for the individual component units may be obtained. (See Section 2100, "Defining the Financial Reporting Entity," paragraph .124.) [NCGAI 6, ¶4, as amended]

[Balance of paragraph not affected.]

.105 [Revise subparagraphs and add new subparagraphs as follows:]

a. Risk management activities. (See Section C50, "Claims and Judgments," paragraphs .134–.137.)
b. [Insert current Codification subparagraph b.]
c. [Insert current Codification subparagraph c.]
d. Condensed financial statements for major discretely presented component units. (See Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," paragraph .114.)
e. [Insert current Codification subparagraph d.]
f. [Insert current Codification subparagraph e.]
g. [Insert current Codification subparagraph f.]
h. The nature of the primary government's accountability for related organizations. (See Section 2600, paragraph .131.)
i. [Insert current Codification subparagraph g.]
j. Joint ventures and jointly governed organizations. (See Section J50, "Accounting for Participation in Joint Ventures and Jointly Governed Organizations," paragraphs .108–.110.)
k. [Insert current Codification subparagraph i.]
l–t. [Insert current Codification subparagraphs j–r.]
u. In component unit separate reports, identification of the primary government in whose financial report the component unit is included and a description of its relationship to the primary government. (See Section 2600, paragraph .128.)
v–z. [Insert current Codification subparagraphs u–y.]

[NCGAI 6, ¶5, as amended]

Narrative Explanations

.111 [Insert current Codification paragraph .109 and revise first sentence as follows:] Narrative explanations of combining, individual fund, account group, and component unit statements and schedules should provide information *not* included in the financial statements, notes to the financial statements, and schedules that is necessary (a) to assure an understanding of the combining and individual statements and schedules and (b) to demonstrate compliance with finance-related legal and contractual provisions. [NCGAS 1, ¶159, as amended by GASBS 14]

NONAUTHORITATIVE DISCUSSION

.601 [Revise paragraph to reflect changes made in paragraphs .105 and .106.] [NCGAI 6, Appendix, as amended]

* * *

BUDGETARY REPORTING **SECTION 2400**

Sources: [Revise as follows:] NCGA Statement 1
NCGA Interpretation 10
GASB Statement 14

.103 [Revise paragraph as follows:] The minimum budget-basis presentation within the GPFS of a reporting entity is the aggregation by fund type of the appropriated budgets for those funds, as amended, compared with related actual amounts. For purposes of this presentation, the appropriated budgets are those adopted by the legislative or governing board of the primary government (and its component units that have been blended and are, as a result, reported as part of the primary government). Budgetary data for the discretely presented component units are not required to be presented in the reporting entity's combined statement of revenues, expenditures, and changes in fund balances—budget and actual. [GASBS 14, ¶56]

.104 If the budget is prepared on a basis consistent with generally accepted accounting principles (GAAP), the actual data in this budgetary comparison statement are the same as

the primary government data in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types. However, if the legally prescribed budgetary basis differs materially from GAAP, budgetary data should not be compared with GAAP-based operating data because these comparisons would not be meaningful. Rather, the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types should present *comparisons of the legally adopted budget with actual data on the budgetary basis* (which may include encumbrances) for the general and special revenue fund types of the primary government (including its blended component units). [Balance of paragraph not affected.] [NCGAS 1, ¶154, as amended by GASBS 14]

.106 [Revise second sentence as follows:] The comprehensive annual financial report (CAFR) should include budgetary comparisons for individual governmental funds of the primary government (including its blended component units). [NCGAS 1, ¶139 and ¶155, as amended by GASBS 14]

Required Reporting

.110 [Revise second sentence as follows:] For purposes of this presentation, the appropriated budgets are those adopted by either the legislative or the governing board of the primary government and its blended component units, in accordance with paragraph .103. [NCGAI 10, ¶12; GASBS 14, ¶56]

Basis Differences

.115 [Revise paragraph as follows:] These differences become more complex with the implementation of Section 2100, "Defining the Financial Reporting Entity." Section 2100 criteria require certain component units to be included within the primary government. A basis difference arises in these circumstances if the blended component unit uses a different basis of accounting in budgeting than the primary government. [NCGAI 10, ¶17, as amended by GASBS 14]

Entity Differences

.121 [Revise paragraph as follows:] Entity differences are the fourth possible type of difference. An "appropriated budget" may include organizations, programs, activities, and functions that are not reported as part of the primary government as defined in Section 2100. [NCGAI 10, ¶23, as amended by GASBS 14]

.122 [Revise last sentence as follows:] Resource uses by organizations under a legally authorized "nonappropriated budget" outside "appropriated budget" may fall within the primary government. [NCGAI 10, ¶24, as amended by GASBS 14]

* * *

SEGMENT INFORMATION FOR ENTERPRISE FUNDS SECTION 2500

Sources: [Add the following:] GASB Statement 14

.101 [Revise first sentence as follows:] Section 2200, "Comprehensive Annual Financial Report," paragraph .136, requires the presentation, within the "liftable" general purpose financial statements (GPFS), of segment information for certain individual enterprise funds of the primary government, including its blended component units. [NCGAI 2, ¶2, as amended by GASBS 14]

[Add an additional paragraph at the end of the section, as follows:]

Discretely Presented Component Units

.109 As noted in Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and can only be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on its significance relative to the

total component units included in the component units column(s), and the component unit's individual relationship with the primary government. [GASBS 14, ¶62 and ¶63]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE **SECTION 2600**

[Revise entire section as follows:]

Sources: NCGA Statement 1
GASB Statement 14

Statement of Principle
Reporting Entity and Component Unit Presentations

a. A comprehensive annual financial report should be prepared and published, covering all funds and account groups of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity—including introductory section; appropriate combined, combining, and individual fund statements; notes to the financial statements; required supplementary information; schedules; narrative explanations; and statistical tables. The reporting entity is the primary government (including its blended component units) and all discretely presented component units presented in accordance with Section 2100, "Defining the Financial Reporting Entity."
b. General purpose financial statements of the reporting entity may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to the fair presentation of financial position and results of operations (and cash flows of those fund types and discretely presented component units that use proprietary fund accounting). Those statements may also be required to be accompanied by required supplementary information, essential to financial reporting of certain entities.
c. As discussed in Section 2100, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component

units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

d. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or another stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions of Section 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government. [NCGAS 1, ¶128; GASBS 5, ¶7; GASBS 9, ¶6; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66]

Introduction

.101 Section 2100, "Defining the Financial Reporting Entity," establishes standards for defining the **financial reporting entity.**[1] The requirements of this section apply at all levels to all state and local governments. This section applies to financial reporting by **primary governments**, governmental **joint ventures**, **jointly governed organizations,** and **other stand-alone governments;** and it applies to the separately issued financial statements of governmental **component units.** This includes governmental enterprises, public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. In addition, this section should be applied to all governmental and nongovernmental component units when they are included in a governmental financial reporting entity. (See paragraphs .103, .106, and .128–.129 for an explanation of how organizations other than primary governments should apply this section.) Section J50, "Accounting for Participation in Joint Ventures and Jointly Governed Organizations," establishes standards for reporting governments' participation in joint ventures. [GASBS 14, ¶1 and ¶9]

[1]Terms defined in Section 2100, paragraph .501, are printed in **boldface type** the first time they are used.

Definitions of the Financial Reporting Entity and Component Units

.102 Section 2100 states that the *financial reporting entity* consists of (a) the primary government, (b) organizations for which the primary government is **financially accountable,** and (c) other organizations for which the primary government is not **accountable,** but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are **legally separate organizations**[2] for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. [GASBS 14, ¶12 and ¶20]

Displaying the Financial Reporting Entity

Nucleus of the Financial Reporting Entity

.103 The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. Although this section is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of governmental component units, joint ventures, jointly governed organizations, and other stand-alone governments. These organizations should apply the provisions of this section as if they were a primary government. To accomplish this goal, the reporting entity's financial statements should present the fund types and account groups of the primary government (including its **blended** component units, which are, in substance, part of the primary government) and provide an overview of the **discretely presented** component units. [GASBS 14, ¶11 and ¶12]

[2][GASBS 14, fn4]

Reporting the Primary Government

.104 [GASBS 14, ¶19] [Change cross-references.]

Reporting Component Units

.105–.106 [GASBS 14, ¶42–¶43] [Change "Statement" to "section."]

Discrete Presentation of Component Units

.107–.113 [GASBS 14, ¶44–¶50] [Change cross-references.]

Individual Component Unit Disclosures

.114 [GASBS 14, ¶51] [Change cross-references.]

Blending Component Units

.115–.117 [GASBS 14, ¶52–¶54]

Investments in For-Profit Corporations

.118 [GASBS 14, ¶55]

Budgetary Presentations

.119 [GASBS 14, ¶56]

Intra-Entity Transactions and Balances

.120 [GASBS 14, ¶57]

.121 Capital lease arrangements between the primary government and blended component units (or between blended component units) should not be reported as capital leases in the financial reporting entity's financial statements. Instead, the lease arrangement should be reported in accordance with Section L20, "Leases," paragraph

.126. Capital lease arrangements between the primary government and discretely presented component units (or between those component units) are subject to existing lease guidance in Section L20, paragraph .126A. Related receivables and payables should not be combined with other amounts due to/from component units or with capital lease receivables and payables with organizations outside of the reporting entity. To avoid double counting of assets and liabilities resulting from capital lease arrangements, eliminations may be made in accordance with Section 2200, paragraph .108. [GASBS 14, ¶58]

Reporting Periods

.122–.123 [GASBS 14, ¶59–¶60]

Note Disclosures

.124 [GASBS 14, ¶61]

Focus of the Reporting Entity's Note Disclosures and Required Supplementary Information

.125–.126 [GASBS 14, ¶62–¶63]

Primary Government Separate Financial Statements

.127 [GASBS 14, ¶64] [Change "Statement" to "section" and change cross-reference.]

Component Unit Financial Statements

.128 [GASBS 14, ¶65] [Change "Statement" to "section" and change cross-reference.]

Other Stand-Alone Government Financial Statements

.129 [GASBS 14, ¶66] [Change "Statement" to "section" and change cross-references.]

Reporting Relationships with Organizations Other Than Component Units

.130 [GASBS 14, ¶67]

Related Organizations

.131 [GASBS 14, ¶68]

Joint Ventures and Jointly Governed Organizations

.132 Reporting of participation in joint ventures and jointly governed organizations is discussed in Section J50, "Accounting for Participation in Joint Ventures and Jointly Governed Organizations."

NONAUTHORITATIVE DISCUSSION

Illustrative Examples

.601 Section 2100, paragraphs .602–.620, provides illustrative examples of the application of this section and Section 2100.

Illustrative Disclosures

.602 [GASBS 14, Appendix E] [Change "Statement" to "section."]

Illustrative Financial Statement Format

.603–.607 [GASBS 14, Appendix F] [Change "Statement" to "section."]

* * *

CASH DEPOSITS WITH FINANCIAL INSTITUTIONS SECTION C20

Sources: [Add the following:] GASB Statement 14

.104 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in

substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for the total of those discretely presented component units for which disclosures are essential to fair presentation. Additional or separate disclosures for blended component units, pension trust funds, or other funds or fund types of the primary government should be made in certain circumstances as discussed in paragraph .107. However, additional or separate presentation by fund, fund type, or component unit is not precluded for any other disclosures required by this section. [GASBS 14, ¶11 and ¶63]

.107 [Revise paragraph as follows:] If the credit risk to the primary government is not apparent because (a) the deposit balances of blended component units, pension trust funds, or other funds of the primary government are significant and (b) the mix of credit risk categories for those units or funds is significantly different from that of other funds or blended component units of the primary government, additional or separate disclosures concerning credit risk categories should be made for those units or funds. [GASBS 3, ¶70, as amended by GASBS 14]

* * *

Sources: [Add the following:] GASB Statement 14

.135 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit-by-component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for the total of those discretely presented component units for which disclosures are essential to fair presentation. However, there may be circumstances when aggregate disclosures are misleading and, in those circumstances, additional or separate presentation should be made by fund, fund type, or blended component unit of the primary government. In addition, there may be circumstances under which disclosures by fund, fund type, or blended component unit of the primary government may provide more useful information than disclosures presented in the aggregate. Additional or separate presentation by fund, fund type, or component unit is not precluded for any disclosures required by this section. If a pool included in the reporting entity's combined financial report issues its own separate report, the combined report should emphasize disclosures about the primary government's participation in the pool and provide reference to the separate report of the pool. [GASBS 10, ¶78; GASBS 14, ¶11 and ¶63]

* * *

DEBT EXTINGUISHMENTS **SECTION D20**

Sources: [Add the following:] GASB Statement 14

.113 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government's fund types and account groups and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for those discretely presented component units for which disclosures are essential to fair presentation. However, there may be circumstances when aggregate disclosures are misleading and, in those circumstances, additional or separate presentation should be made by fund, fund type, or blended component unit of the primary government. However, entities are not precluded from making additional or separate disclosures if aggregation may be misleading, for example, if a significant loss by one fund or blended component unit is offset by aggregate gains in other funds or blended component units of the primary government. [GASBS 7, ¶13, as amended by GASBS 14, ¶11 and ¶63]

.114 [Revise paragraph as follows:] In all periods following an advance refunding for which debt defeased *in substance* remains outstanding, the amount of that debt, if any, outstanding at period-end should be disclosed. These disclosures should distinguish between the primary government and its discretely presented component units, as discussed in paragraph .113. [GASBS 7, ¶14, as amended by GASBS 14, ¶62]

* * *

DEFERRED COMPENSATION PLANS (IRC SECTION 457) SECTION D25

Sources: [Add the following:] GASB Statement 14

Avoiding Duplicate Reporting

.114 [Revise second sentence as follows:] To avoid duplication, (a) deferred compensation amounts applicable to the primary government (including its blended component units) should be included only once in the trust and agency fund column of the primary government's combined financial statements and (b) deferred compensation amounts applicable to discretely presented component units of the entity should be included only in the appropriate columns applicable to those component units. [Change "oversight unit" to "primary government" in the balance of the paragraph.] [GASBS 2, ¶14, as amended by GASBS 14]

* * *

INVESTMENTS, INCLUDING REPURCHASE AGREEMENTS SECTION I50

Sources: [Add the following:] GASB Statement 14

.160 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely

presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for the total of those discretely presented component units for which disclosures are essential to fair presentation. Additional or separate disclosures for blended component units, pension trust funds, or other funds or fund types of the primary government should be made in certain circumstances as discussed in paragraphs .161, .166, and .167. Additional or separate disclosures for individual discretely presented component units also should be made in certain circumstances as discussed in paragraphs .161 and .167. However, additional or separate presentation by fund, fund type, or component unit is not precluded for any other disclosures required by this section. [GASBS 14, ¶11 and ¶63]

Legal or Contractual Provisions for Deposits and Investments, including Repurchase Agreements

.161 [Revise paragraph as follows:] The entity should briefly describe in the notes to financial statements the types of investments authorized by legal or contractual provisions.[10] If the types of investments authorized for different funds, fund types, blended component units, or discretely presented component units differ significantly from those authorized for the primary government, and those funds, fund types, or component units have material investment activity compared with the combined entity's investment activity, the differences in authorized investment types should be disclosed. [GASBS 3, ¶65, as amended by GASBS 14]

[10][Insert current Codification footnote 10.]

.166 [Revise paragraph as follows:] If the credit risk to the primary government is not apparent because (a) the deposit or investment balances of blended component units, pension trust funds, or other funds of the primary government are significant and (b) the mix of credit risk categories for those units or funds is significantly different from that of other funds or blended component units of the primary government, additional or separate disclosures concerning credit risk categories should be made for those units or funds. [GASBS 3, ¶70, as amended by GASBS 14]

* * *

[Revise entire section, including section title, as follows:]

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS **SECTION J50**

Source: GASB Statement 14

.101 [GASBS 14, ¶67]

Joint Ventures

.102–.108 [GASBS 14, ¶69–¶75] [Change cross-references.]

Joint Building or Finance Authorities

.109 [GASBS 14, ¶76] [Change cross-references.]

Jointly Governed Organizations

.110 [GASBS 14, ¶77] [Change cross-reference.]

Component Units and Related Organizations with Joint Venture Characteristics

.111 [GASBS 14, ¶78] [Change cross-references.]

Pools

.112 [GASBS 14, ¶79] [Change cross-references.]

Undivided Interests

.113 [GASBS 14, ¶80] [Change cross-references.]

Cost-Sharing Arrangements

.114 [GASBS 14, ¶81] [Change "Statement" to "section."]

NONAUTHORITATIVE DISCUSSION

Illustrative Examples

.601–.607 [GASBS 14, Appendix D, ¶133, ¶143, and ¶147–¶151] [Change cross-references.]

* * *

LEASES **SECTION L20**

Sources: [Add the following:] GASB Statement 14

Leases between State and Local Governments and Public Authorities

[Replace current Codification paragraphs .125 and .126 and add a new paragraph .126A as follows:]

.125 In accounting and financial reporting for lease agreements between state or local governments and public authorities, it must first be determined whether the public authority is part of the governmental reporting entity for financial reporting purposes. The authority may be either part of the primary government (because it has no separate legal standing or because it is a blended component unit) or a discretely presented component unit. The criteria of Section 2100, "Defining the Financial Reporting Entity," must be

applied to make this determination. Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," provides guidance on whether component units should be presented by blending or discrete presentation. [NCGAS 5, ¶23, as amended by GASBS 14]

.126 If under the criteria of Section 2100, the public authority is part of the primary government for financial reporting purposes, the criteria of FASB Statement 13 do not apply. Instead, the public authority's debt and assets should be reported as a form of the primary government's debt and assets. For example, the leased general fixed assets would be reported in the GFAAG and related debt would be reported in the GLTDAG. The debt service activity of the public authority would be reported as a debt service activity of the primary government, and, if the public authority has a general fund, it would be included as a special revenue fund of the primary government. [NCGAS 5, ¶24; GASBS 14, ¶58]

.126A Capital lease arrangements between the primary government and public authorities reported as discretely presented component units (or between those component units) should be treated in the same manner as any other lease agreement of a state or local government. These agreements, therefore, should be considered long-term contracts for accounting and financial reporting purposes and afforded capital lease treatment if they meet the criteria of this section and FASB Statement 13. However, related receivables and payables should not be combined with other amounts due to/from component units or with capital lease receivables and payables with organizations outside of the reporting entity. To avoid double counting of assets and liabilities resulting from capital lease arrangements, eliminations may be made in accordance with Section 2200, "Comprehensive Annual Financial Reports," paragraph .108. [NCGAS 5, ¶25; GASBS 14, ¶58]

* * *

Sources: [Add the following:] GASB Statement 14

.128 [Revise first sentence as follows:] Employer reporting entities that include a multiple-employer PERS in their reporting entity as a pension trust fund (or a discretely presented component unit) should combine the disclosure requirements of Section Pe6, paragraphs .130–.132, and this section, paragraphs .125, .126, and .129, to avoid duplicate disclosure or confusion between the disclosures applicable to the trust fund (or component unit) and those applicable to the employer. [GASBS 5, ¶38, as amended by GASBS 14]

.130 [Revise paragraph as follows:] The same factors considered when making all note disclosures should be considered when making disclosures on pension information. The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. When separate financial reports of component units are publicly available (containing the pension disclosures required by this section), the reporting entity's disclosures may be minimized by referring to those reports and providing condensed data. Paragraph .125 pension disclosures for each component unit may be limited to pension benefit obligation, net assets available for benefits, and a statement indicating whether actuarially determined employer contribution requirements were met; paragraph .129 disclosures may be limited

to a statement that actuarially determined contribution requirements were met and that the contributions were made to the same cost-sharing multiple-employer PERS in which the primary government participates, if that is the case. [GASBS 5, ¶40; GASBS 14, ¶11 and ¶63]

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POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS **SECTION P50**

Sources: [Add the following:] GASB Statement 14

.107 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for those discretely presented component units for which disclosures are essential to fair presentation. If the employer believes aggregate disclosures would be misleading, additional or separate disclosures should be made for one or more fund types or component units. [GASBS 12, ¶12; GASBS 14, ¶11 and ¶63]

* * *

REVERSE REPURCHASE AGREEMENTS **SECTION R10**

Sources: [Add the following:] GASB Statement 14

.107 [Revise paragraph as follows:] The disclosures required by this section should distinguish between the primary government and its discretely presented component units. The reporting entity's financial statements should present the fund types and account groups of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Accordingly, the reporting entity financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. Determining which component unit disclosures are essential to fair presentation is a matter of professional judgment and should be done on a component unit–by–component unit basis. A specific type of disclosure might be essential for one component unit but not for another depending on the component unit's significance relative to the total component units included in the component units column(s) and the individual component unit's relationship with the primary government. The disclosures required by this section generally should be made for the primary government, including its blended component units, and, separately, for the total of those discretely presented component units for which disclosures are essential to fair presentation. However, additional or separate presentation by fund, fund type, or component unit is not precluded for any other disclosures required by this section. [GASBS 14, ¶11 and ¶63]

* * *

COLLEGES AND UNIVERSITIES **SECTION Co5**

Sources: [Add the following:] GASB Statement 14

.101 [Add the following:]

2100, "Defining the Financial Reporting Entity"
2600, "Reporting Entity and Component Unit Presentation and Disclosure"

[GASBS 2-10; GASBS 12–14; GASBI 1]

[Add four new paragraphs as follows:]

Colleges and Universities Included as Part of Another Reporting Entity

.103 The criteria of Section 2100 should be applied to determine whether and how a college or university should be included as part of a governmental financial reporting entity. The financial data of governmental colleges and universities that are considered to be part of the primary government and that apply the provisions of the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities* (AICPA College Guide), should be included within the financial data of the primary government but may be presented separately from the fund types of the primary government. Rather than be reclassified and reported within the primary government's funds and account groups, the institution's balance sheet may be reported in a column separate from the fund types of the primary government, and its statement of changes in fund balances and statement of current funds revenues, expenditures, and other changes may also be presented in separate statements. [GASBS 14, ¶19]

.104 [GASBS 14, ¶48] [Change cross-references.]

Component Unit Financial Statements

.105 Section 2100 generally defines a "primary government" as having a separately elected governing body—one that is elected by the citizens in a general, popular election. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as a college or university) may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of Sections 2100 and 2600 apply to the separately issued financial statements of governmental colleges and universities. The requirements of those sections should be applied in layers "from the bottom up." That is, each component unit "layer" should apply the definition and display provisions of Sections 2100 and 2600 to its own component unit financial reports. Because both sections are written from the perspective of the primary government, a governmental component unit should apply the provisions of

Sections 2100 and 2600 as if it were a primary government. Separately issued financial statements of a component unit college or university should acknowledge that it is a component unit of another government—for example, "Sample County College, a component unit of Sample County." In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government. [GASBS 14, ¶13 and ¶65]

Other Stand-Alone Government Financial Statements

.106 [GASBS 14, ¶66]

* * *

HOSPITALS **SECTION Ho5**

Sources: [Add the following:] GASB Statement 14

.103 [Add the following:]

2100, "Defining the Financial Reporting Entity"
2600, "Reporting Entity and Component Unit Presentation and Disclosure"

[GASBS 2–7; GASBS 9–10; GASBS 12–14; GASBI 1]

[Add two new paragraphs as follows:]

Component Unit Financial Statements

.104 Section 2100 generally defines a "primary government" as having a separately elected governing body—one that is elected by the citizens in a general, popular election. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as a hospital or other healthcare provider) may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of Sections 2100 and 2600 apply to the separately issued financial statements of governmental hospitals and healthcare providers. The requirements of those sections should be applied in layers "from the bottom up." That is, each

component unit "layer" should apply the definition and display provisions of Sections 2100 and 2600 to its own component unit financial reports. Because both sections are written from the perspective of the primary government, a governmental component unit should apply the provisions of Sections 2100 and 2600 as if it were a primary government. Separately issued financial statements of a component unit hospital or healthcare provider should acknowledge that it is a component unit of another government—for example, "Sample County Hospital, a component unit of Sample County." In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government. [GASBS 14, ¶13 and ¶65]

Other Stand-Alone Government Financial Statements

.105 [GASBS 14, ¶66]

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JOINT VENTURES **SECTION Jo5**

[Delete entire section.]

* * *

PENSION FUNDS—DISCLOSURE **SECTION Pe6**

Sources: [Add the following:] GASB Statement 14

.130 [Revise first sentence as follows:] PERS reporting encompasses (a) separate reporting by the PERS itself and (b) reporting by the state or local government whose financial reporting entity includes the PERS as a pension trust fund or discretely presented component unit. [GASBS 5, ¶30, as amended by GASBS 14]

* * *

Sources: [Add the following:] GASB Statement 14

[Add the following to the list in footnote 1:]

2100, "Defining the Financial Reporting Entity"
2600, "Reporting Entity and Component Unit Presentation and Disclosure"

[GASBS 2–10; GASBS 12–14; GASBI 1]

[Add two new paragraphs as follows:]

Component Unit Financial Statements

.103 Section 2100 generally defines a "primary government" as having a separately elected governing body—one that is elected by the citizens in a general, popular election. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as a public benefit corporation or authority) may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of Sections 2100 and 2600 apply to the separately issued financial statements of governmental public benefit corporations or authorities. The requirements of those sections should be applied in layers "from the bottom up." That is, each component unit "layer" should apply the definition and display provisions of Sections 2100 and 2600 to its own component unit financial reports. Because both sections are written from the perspective of the primary government, a governmental component unit should apply the provisions of Sections 2100 and 2600 as if it were a primary government. Separately issued financial statements of a component unit should acknowledge that it is a component unit of another government—for example, "Sample County Public Benefit Corporation, a component unit of Sample County." In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government. [GASBS 14, ¶13 and ¶65]

Other Stand-Alone Government Financial Statements

.104 [GASBS 14, ¶66]

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UTILITIES **SECTION Ut5**

Sources: [Add the following:] GASB Statement 14

.102 [Add the following:]

2100, "Defining the Financial Reporting Entity"
2600, "Reporting Entity and Component Unit Presentation and Disclosure"

[GASBS 2–7; GASBS 9–10; GASBS 12–14; GASBI 1]

[Add two new paragraphs as follows:]

Component Unit Financial Statements

.103 Section 2100 generally defines a "primary government" as having a separately elected governing body—one that is elected by the citizens in a general, popular election. Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government (such as a public utility) may serve as a nucleus for a reporting entity when it issues separate financial statements. The requirements of Sections 2100 and 2600 apply to the separately issued financial statements of governmental utilities. The requirements of those sections should be applied in layers "from the bottom up." That is, each component unit "layer" should apply the definition and display provisions of Sections 2100 and 2600 to its own component unit financial reports. Because both sections are written from the perspective of the primary government, a governmental component unit should apply the provisions of Sections 2100 and 2600 as if it were a primary government. Separately issued financial statements of a component unit should acknowledge that it is a component unit of another government—for example, "Sample County Water Utility, a component unit of Sample County." In addition, the notes to the financial statements should identify the primary government in whose financial reporting entity it is included and describe its relationship

with the primary government. [GASBS 14, ¶13 and ¶65]

Other Stand-Alone Government Financial Statements

.104 [GASBS 14, ¶66]