

Governmental Accounting Standards Series

EXPOSURE DRAFT

Proposed Statement of the Governmental Accounting Standards Board

The Financial Reporting Entity
an amendment of GASB Statements No. 14 and No. 34

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-14

Comment Deadline: June 30, 2010



Governmental Accounting Standards Board
of the Financial Accounting Foundation

THE FINANCIAL REPORTING ENTITY

Notice of Public Hearing and Request for Written Comments

Public hearing. A public hearing is scheduled during the Board's regular meeting on August 3, 2010, beginning at 1:00 p.m. in Norwalk, CT. Interested individuals or organizations may attend in person or may participate by telephone. Details regarding their participation will be provided after the GASB receives a notice of intent to participate.

Deadline for written notice of intent to participate in public hearing: June 30, 2010

Basis for hearing. The GASB has scheduled a public hearing to obtain information from interested individuals and organizations about the issues discussed in this Exposure Draft. The hearing will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearing and through written response.

Public hearing oral presentation requirements. Individuals or organizations that want to make an oral presentation in person or by telephone at the public hearing are expected to provide, **by the deadline for written notice of intent to participate**, a written notification of that intent and a copy of written comments addressing the standards proposed in the Exposure Draft. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 3-14, and emailed to director@gasb.org or mailed to the address below. The notification should indicate a preference for participating in person or via telephone. The public hearing may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents who want to make oral presentations and will notify each individual or organization of the expected time of the presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

Observers. Observers are welcome at the public hearing and are urged to submit written comments.

REQUEST FOR WRITTEN COMMENTS

Deadline for submitting written comments: June 30, 2010

Requirements for written comments. Any individual or organization that wants to provide written comments should provide those comments **by June 30, 2010**. Written comments should be addressed to the Director of Research and Technical Activities, Project No. 3-14, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public files. Written comments will become part of the Board's public file and will be available for inspection at the Board's offices. Photocopies of those materials may be obtained for a specified charge. After the comment period, the comments will be posted on the GASB's website.

Orders. Any individual or organization may obtain one copy of this Exposure Draft on request without charge until June 30, 2010, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after June 30, please contact the Order Department. The Exposure Draft also may be downloaded from the GASB's website at www.gasb.org/exp.

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Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would modify requirements for the financial reporting entity in Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Appendix C presents the proposed modifications in a markup format. This appendix is provided so that readers of the Exposure Draft can more easily see how these proposed modifications would specifically affect the existing GASB literature. This appendix will not appear in the final standard.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe we should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board’s deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered and modifications, if any, have been made, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

The objective of this proposed Statement is to improve financial reporting for a governmental financial reporting entity by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This proposed Statement would modify certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would have to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement would clarify the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This proposed Statement also would amend the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it would additionally require that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also would be added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions would be amended to clarify that funds of a blended component unit have the same characteristics and the same reporting options as a fund of the primary government. Lastly, additional reporting guidance would be provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This proposed Statement also would clarify the reporting of equity interests in legally separate organizations. Specifically, it would require a primary government to report its equity interest in a component unit as an asset, with the asset being eliminated in the blending process if the component unit meets the blending criteria.

The provisions of this proposed Statement would be effective for financial statements for periods beginning after June 15, 2012. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

The proposed amendments to the criteria for including component units would allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

The proposed amendments to the criteria for blending would improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

For primary governments that are business-type activities reporting in a single column, the proposed guidance for reporting blended component units would allow users to better distinguish between the primary government and its component units by requiring combining information to be included in the notes to the financial statements.

Lastly, the proposed requirements for reporting equity interests in component units would help ensure that primary government financial statements do not understate net position and would provide more consistent and understandable display of those equity interests.

<p>Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.</p>
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Proposed Statement of the Governmental Accounting Standards Board

The Financial Reporting Entity

an amendment of GASB Statements No. 14 and No. 34

March 26, 2010

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Proposed Statement of the Governmental Accounting Standards Board

The Financial Reporting Entity

an amendment of GASB Statements No. 14 and No. 34

March 26, 2010

INTRODUCTION

1. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity by amending the requirements of Statement No. 14, *The Financial Reporting Entity*. This Statement addresses reporting entity issues that have arisen since the issuance of Statement 14, including those related to implementation of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in paragraph 9 of Statement 14. In addition, this Statement should be applied to nongovernmental component units when they are included in a governmental financial reporting entity.

3. This Statement amends Statement 14, paragraphs 12, 20, 21, 27, 34–39, 41, 51, 53–55, 61, 63, 66, 73, 74, and 78; and Statement 34, paragraph 35.

Amendments to the “Misleading to Exclude” Criterion

4. Paragraphs 12, 20, 39, and 66 of Statement 14 allow for inclusion of legally separate entities as component units that do not otherwise meet the criteria for inclusion if it is determined that their exclusion would render the financial statements misleading. Those paragraphs are amended to clarify the manner in which management’s professional judgment should be applied in making this determination.

a. Paragraph 12 of Statement 14, as amended:

As discussed in detail below, the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable (see paragraphs 21–37). In addition, the primary government may determine that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, that organization should be included as a component unit (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 an other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial reports. Although this Statement is written from the perspective of the primary government, its requirements apply to the separately issued basic 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.

b. Paragraph 20 of Statement 14, as amended:

Component units are legally separate organizations⁴ 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 (as discussed in paragraphs 39–41).

⁴A 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.

c. Paragraph 39 of Statement 14, as amended:

Paragraph 12 provides that a primary government may determine, through exercise of management’s professional judgment, that an organization that does not meet the specific financial accountability criteria should be included as a component unit to prevent the reporting entity’s financial statements from being misleading. This determination should be based on the nature and significance of the organization’s relationship with the primary government.

d. Paragraph 66 of Statement 14, as amended:

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 20. 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. Even though 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. (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.

5. Paragraph 41 of Statement 14 is amended to clarify what types of relationships generally should be considered in determining whether it would be misleading to exclude a potential component unit from the financial reporting entity.

a. Paragraph 41 of Statement 14, as amended:

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated^{5b} with, the primary government. Generally, relationships that would cause the need for that evaluation by the primary government's management are financial in nature. For example, such a relationship may exist if there is a potential significant financial benefit to, or financial burden on, the primary government that is determined to be other than temporary. 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 in the reporting entity.

^{5b}Financial integration may be exhibited and documented through the policies, practices, or organizational documents of either the primary government or the organization being evaluated as a potential component unit.

Amendments to Inclusion under the Financial Accountability Concept

6. Paragraphs 21, 27, and 34–38 of Statement 14 require a legally separate entity to be included as a component unit if it is fiscally dependent on the primary government. Those paragraphs are amended to require that, in addition to meeting the fiscal dependency criterion, a financial benefit or burden relationship should be present in order for a potential component unit to be included in the financial reporting entity based on that concept.

a. Paragraph 21 of Statement 14, as amended:

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 body⁵ *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 and* 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) 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).

⁵This 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).

b. Paragraph 27 of Statement 14, as amended:

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 or if the organization is fiscally dependent on the primary government *and* there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, *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.

- c. Paragraph 34 of Statement 14, as amended:

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. A fiscally dependent government that has the potential to provide a financial benefit to, or to impose a financial burden on, a primary government should be reported as part of that primary government’s financial reporting entity. Paragraphs 27–33 provide the criteria for determining whether a financial benefit or burden relationship exists.

- d. Paragraph 35 of Statement 14, as amended:

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 if a financial benefit or burden relationship also exists.

- e. Paragraph 36 of Statement 14, as amended:

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 if there also is a financial benefit or burden relationship with it, even though the local government does not appoint any members of the school district's governing board.

f. Paragraph 37 of Statement 14, as amended:

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 if a financial benefit or burden relationship also exists.

g. Paragraph 38 of Statement 14, as amended:

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 and have a financial benefit or burden relationship with another state or local government (as discussed in paragraphs 16–18 and 21b). 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 should govern in determining the appropriate reporting entity of such school districts.

Amendments to the Major Component Unit Requirements

7. Paragraphs 51 and 63 of Statement 14 are amended (paragraph 63 is included under paragraph 11 of this Statement) to clarify the types of relationships that affect the

determination of major component units and to eliminate a requirement that the determination include consideration of each component unit's significance relative to other component units.

a. Paragraph 51 of Statement 14, as amended:

Certain information should be presented about each major component unit included in the financial reporting entity, except for component units that are fiduciary in nature. The determination that a component unit is "major" should be based on the nature and significance of its relationship to the primary government. This determination generally would be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. Major component unit reporting requirements should be satisfied by (1) presenting each major component unit in a separate column in the reporting entity's statements of net assets and activities, (2) including combining statements of major component units in the reporting entity's basic statements after the fund financial statements, or (3) presenting condensed financial statements in the notes to the reporting entity's financial statements. Nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required, but may be presented as supplementary information.

Amendments to the Criteria for Blending Component Units

8. Paragraph 53 of Statement 14 is amended to add additional criteria for blending, including an additional provision when the governing bodies are substantively the same and a provision for component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

a. Paragraph 53 of Statement 14, as amended:

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

a. The component unit's governing body is substantively the same as the governing body of the primary government⁷ and (1) there is a financial benefit or burden relationship between the primary government and the component unit, as described in paragraphs 27–33 or (2) management of the primary government has operational responsibility for the component unit. Management of a primary government has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Management, for purposes of this determination, consists of the person(s), below the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager).

- 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 that provides services on behalf of the primary government to its employees rather than directly to the primary government itself.
- c. The component unit’s total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Repayment generally occurs through a continuing irrevocable pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments to bondholders as the primary source of repayment for its debt.

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.

Amendments to the Requirements for Reporting the Funds of a Blended Component Unit

9. Paragraph 54 of Statement 14 is amended to clarify that, for financial reporting purposes, funds of a blended component unit have the same characteristics and the same reporting alternatives as a fund of the primary government. In addition, paragraph 54 is amended to provide additional reporting guidance for blending a component unit if the primary government is a business-type activity that reports in a single column.

- a. Paragraph 54 of Statement 14, as amended:

Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the funds of the component unit are subject to the same financial reporting requirements as the primary government’s

own funds, including those regarding major fund reporting. The funds of a blended component unit should be presented by including them with the primary government's other funds in the appropriate fund financial statements and combining statements, if presented. 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 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. In addition, for governments engaged only in business-type activities that use a single column for financial statement presentation, a component unit may be blended by consolidating its financial statement data within the single column of the primary government and presenting combining information in the notes to the financial statements.

Amendments to the Requirements for Reporting Equity Interests in Component Units

10. Paragraph 55 of Statement 14 (and paragraph 78, presented under paragraph 12 of this Statement) is amended to clarify the reporting of ownership interests in legally separate organizations. Specifically, it requires that a primary government report an asset for its equity interest in a discretely presented component unit. In addition, the term *investment* in paragraphs 73 and 74 (not presented below) is replaced with the term *equity interest*.

a. Paragraph 55 of Statement 14, as amended:

If a government acquires a majority of the equity interest (as defined in paragraph 72) in a legally separate organization (for example, through acquisition of its voting stock), the government's objective in making the acquisition should determine whether the organization should be presented as a component unit or an investment of the primary government. If the government's intent in acquiring a majority equity interest is to directly enhance its ability to provide governmental services, the organization should be reported as a component unit. 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 equity interest should be reported as an asset of the fund that has the equity interest (subject to reporting requirements for governmental funds discussed in paragraph 74). However, if the component unit is blended, the asset associated with the equity interest should be eliminated and replaced with the complete statement of net assets of the component unit. Changes in the equity interest should be reported pursuant to the requirements in paragraphs 73 and 74. If, however, the government makes the acquisition for the purpose of obtaining income or profit rather than to enhance its ability to provide governmental services, it should report its equity interest as an investment, regardless of the extent of its ownership.

Amendments to Note Disclosures

11. Paragraphs 61 and 63 of Statement 14 are amended to clarify that governments should disclose the rationale for including *each* component unit and the manner in which it is included.

a. Paragraph 61 of Statement 14, as amended:

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 rationale for including each component unit in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. The notes should also include information about how the separate financial statements for the individual component units may be obtained.

b. Paragraph 63 of Statement 14, as amended:

Notes essential to fair presentation in the reporting entity's basic financial statements encompass:

- a. Governmental and business-type activities, major funds individually, and nonmajor funds in the aggregate of the primary government (including its blended component units).
- b. Major discretely presented component units considering the nature and significance of each component 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 individual component unit's relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit.

Amendments for Component Units and Related Organizations with Joint Venture Characteristics

12. Paragraph 78 of Statement 14 and paragraph 35 of Statement 34 are amended to provide reporting guidance for minority interests in component units and related organizations with joint venture characteristics.

a. Paragraph 78 of Statement 14, as amended:

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 for component units^{10a} and paragraph 68 for related organizations. However, the other (minority) governmental 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 “restricted net assets, nonexpendable.” 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 and has a financial benefit or burden relationship with that participating government. This type of organization should be reported, by all participants, in the manner described earlier in this paragraph.

^{10a} Any equity interests that the majority participant primary government has in the component unit should be reported as an asset according to the provisions of paragraph 55.

b. Paragraph 35 of Statement 34, as amended:

When permanent endowments, permanent fund principal amounts, or minority interest in a component unit are included, “restricted net assets” should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity or that represent minority interests in component units.

EFFECTIVE DATE AND TRANSITION

13. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. 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 net assets (or fund equity or fund balance, as appropriate) for the earliest period restated (generally the current period). In the first period that this Statement is applied, the financial statements should disclose the nature of the restatement and its effect.

<p>The provisions of this Statement need not be applied to immaterial items.</p>

Appendix A

BACKGROUND

14. Statement No. 14, *The Financial Reporting Entity*, establishes financial reporting guidance for all governments that have component units, joint ventures, related organizations, or similar relationships. Because the structures and relationships of organizations vary so much from government to government, many questions about Statement 14 requirements have arisen since its issuance in 1991. Additional issues regarding accounting and financial reporting for the reporting entity also have arisen since the issuance of Statement 14, Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and subsequent standards that were not addressed in those pronouncements. In addition, the GASB’s strategic plan calls for a periodic reexamination of its standards. Accordingly, at the January 2006 Board meeting, a project to reexamine the reporting requirements in Statement 14 and related standards for financial reporting entities was placed on the Board’s research agenda.

15. The objective of the project was to reexamine the requirements of Statement 14, as amended, with additional emphasis on areas that had become recurring topics for technical inquiries, to determine the effectiveness of the current standards. This project intended to determine whether financial statement users, preparers, and attestors believe that reporting entities applying that standard are including all appropriate related organizations and excluding organizations that should not be included. The project also reexamined whether the financial information of the included organizations is displayed and disclosed in the most appropriate and useful manner. This included consideration of the GASB’s current conceptual framework.

16. The project originally included an examination of the requirement in paragraph 19 that governments include fiduciary activities (for example, employee benefit plans) as trust funds “if the primary government has a fiduciary responsibility for them,” whether or not the organizations that administer them (for example, public employee retirement systems) would meet the criteria for inclusion if analyzed as potential component units. However, following discussion of the fiduciary responsibility notion, the Board concluded that the issues associated with this topic were broader than reporting entity considerations and, therefore, should not be addressed in the project.

17. The Board also originally decided to combine a previously separate project on reporting unit presentations with the Statement 14 reexamination project. The objective of that addition was to develop requirements that could constitute generally accepted accounting principles (GAAP) for separately issued financial statements for reporting units that comprise less than a separate legal entity. The original project plan was to address all reporting units that are not legally separate entities, as defined in Statement 14. However, at the January 2009 meeting, the Board concluded that the issues related to the reports that fall within this category are broader than the reporting entity issues and should not be addressed in this project.

18. In the first quarter of 2006, the GASB provided a grant to Dr. Craig Shoulders to conduct research to provide information necessary to assess the current state of Statement 14 reporting by the 50 states and a representative sample of cities and counties, and to determine the state of compliance with financial reporting entity reporting requirements and issues arising therefrom. That research was presented to the Board in August 2007. It identified a number of compliance issues and areas for potential further research. Based on Dr. Shoulders' research and prior GASB research, the GASB staff conducted an internet-based survey to further determine user needs regarding component unit reporting.

19. In March 2008, the project was reviewed by the Governmental Accounting Standards Advisory Council (GASAC). The GASAC members rated this project as a high priority for the current agenda.

20. At the April 2008 meeting, the Board considered the research findings and GASAC member input; the reexamination project was then added to the current agenda. In addition, the GASB staff conducted structured phone and in-person interviews of all types of financial statement users to further ascertain whether the current accounting guidance for the financial reporting entity is sufficiently meeting user needs. The results of the additional staff-conducted research were presented to the Board in September 2008.

21. The GASB assembled a task force comprising 14 members broadly representative of the GASB's constituency. Advisory group members reviewed and commented on papers prepared for the Board's deliberations and on drafts of the Exposure Draft. In addition, at several stages of the project, input was sought from the GASAC members.

22. In arriving at the conclusions presented in this Statement, the GASB considered its own standards and current and proposed standards and concepts of the International Public Sector Accounting Standards Board, the Federal Accounting Standards Advisory Board, the Financial Accounting Standards Board, and others.

Appendix B

BASIS FOR CONCLUSIONS

23. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope

24. The GASB's strategic plan calls for periodic reexamination of its standards to determine if, in general, they are effective and assist in assessing accountability or in providing decision-useful information for users of governmental financial statements. A reexamination also involves determining if issues have arisen in the application of the standards that have adversely affected their effectiveness or the decision usefulness of the resulting information, and consideration of changes that may be appropriate to conform to the current conceptual framework. Accordingly, the scope of this project was established as a reexamination of the provisions of Statement 14 and of related guidance found in other standards. However, this project does not include a reexamination of the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, because its provisions had not yet been effective for at least five years at the commencement of this project. (Appendix A discusses other issues that were excluded from the scope of the project.)

25. Based on the research and the review of other reporting entity standards discussed in Appendix A, the Board concluded that, in general, the reporting entity framework established in Statement 14 (the criteria for inclusion of component units, the display and disclosure requirements, and other provisions) continues to be appropriate and provides financial statement users with decision-useful information in a cost-effective manner. However, the research also identified a number of compliance issues and opportunities for clarifying existing guidance or providing new guidance. This Statement addresses those issues.

The Financial Accountability Concept

26. One of the most regularly debated provisions of Statement 14 is the financial accountability concept. Some have expressed concerns over the broad nature of financial accountability; that is, they questioned the usefulness of presenting and aggregating component units that have significantly different relationships with the primary government. Under the guidance of Statement 14, all discretely presented component units are presented similarly. For example, if one component unit's relationship to the primary government consists of the appointment of a voting majority of its governing body by the primary government with an imposition-of-will relationship, its presentation is indistinguishable from other component units whose relationships to the primary government consists of an appointment of a majority of the governing body by the

primary government and a financial benefit or burden relationship with the primary government. Furthermore, those component units are indistinguishable from those for which there is no appointment and no financial relationship with the primary government.

27. The project's research results indicate that, for many financial statement users, financial interdependency between the primary government and its component units is the most important relationship for determining which organizations should be included in a financial reporting entity. The Board recognizes that including the financial information of a component unit based *solely* on fiscal dependency on the primary government may be useful to some users; however, it may not be as important to other users whose interests also are focused on financial interdependency relationships. The Board was persuaded by the results of the research to conclude that, in the absence of a governing board appointment, the primary government powers included in the fiscal dependency criteria, *on their own*, should not be considered dispositive for component unit determination.

28. The Board considered amending the criteria for financial accountability in items (a) and (b) of paragraph 21 so that an organization would be included when (1) the primary government appoints the voting majority of its board and there is a potential financial benefit or burden relationship between it and the primary government or (2) an organization is fiscally dependent on the primary government and there is a potential financial benefit or burden relationship. Under this approach, the "imposition of will" criteria would be removed from the financial accountability concept, and a financial benefit or burden relationship would be required for all component units. For example, if a primary government appointed the board of an organization that operated as a business-type activity without any subsidies to the authority or from the authority but the primary government had the ability to significantly affect the day-to-day operations of the organization, it would not be reported as a component unit because no financial benefit or burden relationship exists. The Board rejected this approach largely due to the concern that emphasizing the significance of financial relationships to the point of eliminating the imposition of will considerations is contrary to the foundation of financial accountability as established in the Statement 14 financial reporting entity concept.

29. Based on the research results, the Board reaffirmed the basic concept of financial accountability. However, the Board concluded that additional guidance was needed for inclusion of component units under one aspect of financial accountability: the fiscal dependency criteria.

Reconsideration of the Fiscal Dependency Criteria

30. Fiscal dependency, as discussed in Statement 14, is considered a manifestation of financial accountability. The ability of a government to (a) determine its budget; (b) establish its rates, tax levies, or charges; and (c) issue debt without the approval or modification of another government is so essential to a government's financial and administrative autonomy that without each of those abilities, it is not considered fiscally independent. As a result, under Statement 14, the elected officials of the primary government are accountable to the public for the decisions they make related to their authority over a fiscally dependant government. This is the case regardless of whether

there is any *financial* interdependency (potential financial benefits or burdens) between the primary government and a fiscally dependent government. The Board considered two approaches to amending the fiscal dependency criteria. Those approaches are discussed in the following paragraphs.

31. The Board considered amending paragraph 21b to add a requirement for a financial benefit or burden relationship and replace the fiscal dependency criteria with the more expansive “imposition of will” criteria. The Board rejected that approach because the “imposition of will” criteria, as set forth in Statement 14, include considerations that are appropriate only in light of a majority board appointment by the primary government. Consequently, such an approach could expand the number of component units to include more organizations whose governing boards are not appointed by the primary government. The Board concluded that such an expansion of the financial reporting entity is not responsive to the results of the project research and would not improve the decision usefulness of the financial statements.

32. The Board concluded that the most appropriate path to improve the fiscal dependency criterion would be to amend the criteria in paragraph 21b of Statement 14 to require that a financial benefit or burden relationship with the primary government also should be present. The Board believes that the effect of this amendment will be the exclusion of potential component units that are not related to the primary government through governing board appointments or whose relationships with the primary government, while not unimportant, are not sufficiently significant, on their own, to cause inclusion as a component unit. This approach is more consistent with part (a) of the financial accountability definition in paragraph 21, which also includes a financial benefit or burden criterion in conjunction with a majority board appointment. The Board believes that excluding those organizations would appropriately increase the emphasis on the information in the financial statements to that which is most relevant to the needs of a greater number of users.

The “Misleading to Exclude” Criterion

33. Statement 14 establishes that financial accountability is the primary benchmark for inclusion in a governmental financial reporting entity. However, the Board recognized that the financial accountability criteria may not be met in some cases in which one’s professional judgment would indicate that inclusion as a component unit would be appropriate. Therefore, paragraph 12 and related paragraphs of Statement 14 provide for inclusion of “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.” This provision is the basis for the reporting requirements in Statement 39, which establishes that it would be misleading to exclude organizations that meet certain specific criteria. The Basis for Conclusions of that Statement explains that, “The Board continues to believe that there may be situations in which organizations that have a significant relationship with the primary government do not meet the specific criteria in Statement 14, as amended [by Statement 39]. In these circumstances, professional judgment is necessary to determine whether exclusion of the potential component unit makes the primary government’s

financial statements misleading or incomplete due to the nature and significance of their relationship” (paragraph 33).

34. The Board continues to believe that this criterion is useful and appropriate. However, the Board also concluded that its intent and application needs to be clarified. As a result, the provision has been restructured to emphasize the consideration rather than the required inclusion of organizations whose exclusion may render the statements misleading. In addition, this Statement clarifies the types of relationships that the Board believes would cause the need for an evaluation under this criterion. The Board believes that those relationships generally will be financial in nature, often including financial benefit or burden relationships. Lastly, this Statement deletes the phrase *or incomplete* from the criterion because, in this context, financial statements that are incomplete are misleading.

Major Component Unit Information

35. In the years since Statement 14 was issued, some have noted that there has been uncertainty in practice regarding how to apply the “significance relative to other component units” criterion of paragraph 61, which provides guidance for identifying major components. If there is a small number of component units, one could conclude that all component units are significant. As a result, it has been noted that there was inconsistency between governments in how they determine which component units are major. The Board decided that additional clarification about how to apply the major component unit criteria was needed to achieve more consistent application and to aid in user understanding by better focusing the financial statements on the primary government and its relationships with component units.

36. The purpose for presenting major component units is to distinguish component units that are of greater interest to financial statement users and combine other component units (as nonmajor component units) in an effort to condense the report presentation. The Board considered responses to the user survey regarding the importance of component unit information. Emphasis in survey participants’ comments is on the relevance of the component unit to the primary government as opposed to a component unit’s significance relative to the other component units.

37. Statement 34 states that “the focus of the government-wide financial statements should be on the primary government.” In addition, that standard provides that “the notes should focus on the primary government.” These provisions emphasize that the component units’ relationships to one another have little bearing on their relationship to the primary government and may actually distract from the focus on the primary government. The Board concluded that the criteria for determining major component units should be amended to better focus the user’s attention on the primary government by eliminating the requirement to consider each component unit’s significance relative to other component units.

38. The Board considered a quantitative approach to determining major component units. This method would apply percentages similar to the major fund provisions to

financial statement elements to determine major component units. Applying a relative percentage approach to discretely presented component units would result in consistent determination of major component units between governments. However, the Board determined that application of the major fund approach to component units may not be appropriate because it would presume that component unit balances always are important relative to the primary government, regardless of the nature of the relationships between the primary government and its component units. As noted above, participants in the user survey generally focused on the nature of the relationships between the primary government and its component units, not on component unit balances relative to one another. Therefore, the Board concluded that a quantitative approach to determining major component units would not be appropriate.

39. The Board considered which relationships with the primary government are regarded by users of financial statements as being of greater importance and noted that paragraph 128 of Statement 34 states that “. . . the notes to the financial statements should disclose, for each major component unit, the nature and amount of significant transactions with the primary government and other component units.” Thus, if significant transactions with major component units are essential for user understanding of the financial statements, they also may provide a reasonable basis for determining which component units are major. The Board concluded that certain types of potential transactions with component units should be considered in determining which component units are reported as major component units. For example, if a component unit holds significant debt in relation to the primary government, and if the primary government is obligated in some manner for that debt, then the component unit is of such significance in relation to the primary government that it likely should be reported as a major component unit. Similarly, if the component unit provides significant financial support for the obligations or operations of the primary government, the relationship with the primary government likely would be such as to meet the major criteria.

40. The Board also considered whether nonfinancial relationships should be evaluated in the major component unit determination, for example, provision of services by the component unit to the constituency of the primary government. The Board recognized that certain services provided to the citizenry may be of significant interest to the citizens and that their need for information about the provision of those services provides adequate justification to require presentation of those component units as major. The Board believes that it is a matter of professional judgment to determine which services provided by component units are such that presentation as a major component unit is appropriate.

Criteria for Blending Component Units

The “Substantively the Same Governing Body” Criterion

41. Paragraph 53a of Statement 14 illustrates the viewpoint that blending is appropriate if the component unit is, in substance, part of the primary government. It requires component units to be blended if their “governing body is substantively the same as the governing body of the primary government.” Footnote 7 states “‘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.”

42. Some of the participants in the user research stressed that these organizations whose governing boards are substantively the same as that of the primary government are, nevertheless, legally separate entities and that more than just the identity of the board members should be considered. They contend that blending component units with substantively the same governing body may add significant assets to the primary government's financial statements that the primary government may not be able to access and significant debt for which the primary government may not be liable. The concern is that blending these component units tends to obscure the data of the primary government's legal entity. One of the objectives of Statement 14 is to not obscure the financial data of a primary government. The Board was persuaded by those concerns and concluded that component units that meet only the “substantively the same governing body” criterion are not sufficiently intertwined with the primary government to require blending. The Board agreed that additional criteria should be met so that the relationship with the primary government would not be overstated if the component unit were blended.

43. As discussed in paragraph 30, the Board decided to add a financial benefit or burden requirement to the fiscal dependency criterion. The Board concluded that a similar requirement also should be added to the “substantively the same governing body” criterion for blending. Thus, a component unit that, under Statement 14, would be blended because its governing board is substantively the same as that of the primary government, would *not* be blended unless the primary government also has a financial benefit or burden relationship with that component unit.

44. The Board also considered that the blending principle is based on the notion that the component unit functions much like a fund or department of the primary government; that is, it is in substance, the same as the primary government. The Board concluded that determining if a component unit functions much like a fund or department of the primary government also should include consideration of whether the management of the primary government manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Therefore, this Statement also requires blending if the “substantively the same governing body” criterion is met *and* management of the primary government has operational responsibility for the component unit. In other words, management of the primary government would need to have the ability to essentially affect the day-to-day operations of the component unit to the same extent it can affect the day-to-day operations of its own activities. If that similarity exists, the relationship is consistent with the principle underlying the blending notion. For purposes of this determination, this Statement distinguishes between management and the governing board.

Component Units with Debt Expected to Be Repaid by Primary Government

45. Historically, concerns about blending component units generally have involved a desire for less blending. However, there are some instances in which users and preparers have expressed a preference to blend certain types of component units that have been discretely presented. One example of such an instance is when a state creates a separate authority to issue debt on its behalf because the state has a limited capacity to directly issue debt or is prohibited from issuing debt without voter approval. In those situations, the debt issued by the authority is often secured by pledged state revenue streams. Some have argued that the substance of that arrangement is similar to that of a revenue bond issued directly by the state and payable from specific revenues with the only difference being the presence of the debt-issuing component unit serving to issue the debt and pass through the pledged state revenues to the bondholders. Blending those component units under the Statement 14 requirements generally was considered to be inappropriate because the component unit does not provide services to the primary government itself. Rather, in furtherance of the primary government's mission or statutory obligations, the direct beneficiaries of the component unit's services (the activities financed by the borrowing) are individuals, organizations, or political subdivisions.

46. The Board concluded that the most relevant depiction of the primary government (including its blended component units) would be to look through the organizational differences and recognize the substance of the debt arrangement, which is that the primary government has incurred an obligation that it expects to repay with its own resources. Many component units issue debt, and that debt is generally expected to be repaid with the component unit's own revenues. The Board's concern about blending does not extend to those debt-issuing component units because those debts would not be considered *in substance* debts of the primary government. In considering how to achieve more consistent reporting, the Board focused on the most pertinent attribute of debt issuing component units—the source of repayment. The focus of the concern is on debt that is expected to be repaid entirely or almost entirely from a resource stream of the primary government—generally through a continuing, irrevocable pledge and appropriation of specific revenues to the component unit (which, in turn, pledges those resources to the bondholders). Thus, the Board concluded that the blending requirements should be expanded to include component units that issue debt that is expected to be repaid entirely or almost entirely with resources of the primary government. The reference to debt being “expected to be repaid entirely or almost entirely with resources of the primary government” is intended to allow for discrete presentation if there is a pledge of primary government resources as a secondary source of repayment or if resources received from the primary government are among the sources of repayment available to the component unit, including, for example, resources provided by other parties and revenues of the component unit.

47. One potential issue the Board identified with this amendment is the possibility for blending a component unit that has a high volume of outstanding debt, but only a portion of that debt is expected to be repaid from resources of the primary government. That is, the concern was that any component unit may be subject to the blending requirement if it issued any amount of debt expected to be repaid with resources of the primary

government, regardless of whether the component unit's principal activities and financing sources are related to that debt. In response to this concern, the Board decided that the determination should be based on the primary government's resources pledged for specific debt relative to the component unit's *total* debt outstanding.

Reporting the Funds of a Blended Component Unit

48. Paragraph 52 of Statement 14, which provides the blending concept, states that “. . . the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself.” Since the issuance of Statement 14, some concerns have been expressed about specific aspects of the transformation of governmental component units to funds of the primary government. In response, the Board has amended paragraph 54 to clarify that funds of a blended component unit assume all the characteristics of funds of the primary government and are subject to the same fund reporting requirements, alternatives, and limitations.

49. Paragraph 54, as amended, also explains the mechanics of blending in a governmental funds setting. Some uncertainty has been noted in practice regarding how to blend a component unit if the primary government is a business-type activity that uses a single column presentation in its financial statements. That situation is common in higher education, healthcare, and public utilities. Based on the research, the Board concluded that blending may be accomplished by consolidating the component unit's financial data within the single column of the primary government and presenting combining information in the notes. However, this does not preclude business-type activities from reporting a blended component unit in a separate column and presenting the combined primary government total column.

Reporting Equity Interests in Component Units

50. Paragraph 55 of Statement 14 provided guidance for reporting acquisitions of equity interests in for-profit corporations. If an acquired enterprise met the criteria for reporting as a discretely presented component unit, the primary government reported the acquisition as an expense in economic resources-based financial statements. As a result, the primary government's financial statements reported an outflow of resources for the acquisition; however, no related asset or net assets of the acquired entity was reported in the primary government's financial statements. Conversely, Statement 14 required primary governments to report an asset for equity interests in joint ventures.

51. To address this inconsistency, the Board considered requiring blending, in some or all circumstances, of majority-owned enterprises that are component units. However, that would result in blending of some component units that are not considered to be so intertwined with the primary government that blending is appropriate. Furthermore, that could involve determination of whether a primary government meets a control criterion, which is a conceptually different basis for blending than the financial accountability approach in Statement 14.

52. The Board believes that equity interests meet the definition of “assets” in Concepts Statement No. 4, *Elements of Financial Statements*, which applies to legally separate entities, including primary governments. Accordingly, this Statement requires primary governments to report the ownership of an equity interest in a component unit as an asset of the fund that has the equity interest (subject to reporting requirements for governmental funds), rather than as an expense/expenditure. If the component unit is blended, the asset associated with the equity interest is eliminated for financial reporting purposes in the blending process and replaced by the complete statement of net assets of the component unit. If the component unit is discretely presented, the financial statements of the *reporting entity* also will report the equity interest in the net assets of the component unit as an asset of the primary government.

53. This Statement also harmonizes reporting requirements for equity interests in component units with those for joint ventures and for organizations with joint venture characteristics.

Note Disclosures

54. The Shoulders Study conducted for this project cited multiple instances where disclosure in the notes did not clearly explain why component units were included in the reporting entity financial statements. For example, several governments (of every category) either used terminology from prior standards to explain how they identified component units or indicated that they used a basis for distinguishing blended component units from discretely presented component units that did not conform to the criteria in Statement 14. In addition, paragraph 61 states that disclosures about component units should include a discussion of the criteria for including the component units in the financial reporting entity. Many governments have interpreted compliance with that requirement as restating the inclusion criteria from Statement 14 as opposed to specifying which inclusion criteria are applicable to the *individual* component units.

55. Based on the research conducted, the Board concluded that the existing disclosure requirements for component units are sufficient. However, the Board identified a need to clarify how those requirements should be applied. Therefore, this Statement emphasizes that the requirements of paragraph 61 apply to each component unit, rather than component units in general. That is, the amendment clarifies that it requires a discussion of the reasons for inclusion for each component unit.

Component Units and Related Organizations with Joint Venture Characteristics

56. Statement 14, paragraph 78 as amended, addresses the reporting of an organization that has the basic characteristics of a joint venture but joint control is not present because the organization’s relationship with one participant meets some aspect of the fiscal dependency criteria. It requires that “the organization itself, when included as a component unit in the majority participant’s financial reporting entity, should report any equity interests . . . of the minority participants as fund balance or net assets ‘reserved for minority interests.’” Since the implementation of Statement 34, there has been some

uncertainty about how minority interests in component units should be reported in a statement of net assets.

57. The Board decided that the requirements of paragraph 78 should be amended to be consistent with the net assets reporting requirements in Statement 34. The Board agreed to retain the essence of the guidance of paragraph 78 by eliminating the requirement to report “reserved for minority interest” in favor of a requirement to follow the provisions of Statement 34. The Board concluded that compliance with Statement 34 is best achieved by reporting minority interests as “restricted net assets” because the other categories of net assets are not appropriate. The Board believes that, although a minority interest does not meet the definition of *restricted* in paragraph 34 of Statement 34, it is consistent with the concept that its use is constrained and therefore should be included within “restricted net assets” in proprietary funds and in the government-wide statement of net assets. The Board further concluded that the nature of a minority interest is such that it should be classified as nonexpendable. Accordingly, this Statement amends paragraph 35 of Statement 34 to acknowledge that minority interests in component units should be included in the calculation of nonexpendable restricted net assets.

Appendix C

RELEVANT TEXT OF STATEMENTS 14 AND 34, AS AMENDED

58. This appendix presents the relevant text of Statement 14, as previously amended and as amended by this Statement. This appendix also presents paragraphs 34 and 35 of Statement 34, as previously amended and as amended by this Statement. [Paragraphs of Statements 14 and 34 that are not affected by this Statement are shaded. Added text is underlined and deleted text is struck-out.]

Statement 14, as Previously Amended and as Amended by This Statement

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."* In addition, this Statement amends all disclosure requirements that relate to reporting by the "entity as a whole." [Footnote 1 omitted.]

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." 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.

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 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 reports 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.) [GASBS 14, ¶9, as amended by GASBS 34, ¶6]

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

²Terms defined in Appendix B, "Glossary," are printed in **boldface type** the first time they are used. [GASBS 14, fn2]

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 government-wide financial statements should display information about the reporting government as a whole, using separate rows and columns to distinguish between the total primary government and its **discretely presented** component units. The reporting entity's fund financial statements should present the primary government's governmental, proprietary, and fiduciary funds (including its **blended** component units, which are, in substance, part of the primary government), reporting major funds individually and nonmajor funds in the aggregate. Component units that are fiduciary in nature should be reported only in the statements of fiduciary net assets and changes in fiduciary net assets with the primary government's fiduciary funds. [GASBS 14, ¶11, as amended by GASBS 34, ¶80 and ¶82; GASBS 34, ¶6, ¶13, ¶14, ¶75, and ¶125]

Definition of the Financial Reporting Entity

12. As discussed in detail below, the financial reporting entity consists of ~~(a) the primary government, (b) and~~ 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~~. In addition, the primary government may determine that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit (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 an other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial reports. Although this Statement is written from the perspective of the primary government, its requirements apply to the separately issued basic 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. [GASBS 14, ¶12, as amended by GASBS 34, ¶6]

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.

³There 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 [for comprehensive annual financial reports]. 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 [Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraphs 106 and 108–111]. 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. [GASBS 14, ¶19, as amended by GASBS 35, ¶5]

Component Units

Definition of Component Units

20. Component units are legally separate organizations⁴ 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).

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 body⁵ 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 and 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) 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).

⁴A 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.

⁵This 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).

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 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 or if the organization is fiscally dependent on the primary government and there is a potential for ~~that~~ those organizations 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~~ those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, 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 Arising from 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. A fiscally dependent government that has the potential to provide a financial benefit to, or to impose a financial burden on, a primary government should be reported as part of that primary government's financial reporting entity. Paragraphs 27–33 provide the criteria for determining whether a financial benefit or burden relationship exists.

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 if a financial benefit or burden relationship also exists.

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 if there also is a financial benefit or burden relationship with it, 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 if a financial benefit or burden relationship also exists.

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 and have a financial benefit or burden relationship with another state or local government (as discussed in paragraphs 16–18 and 21b). 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 provides that a primary government may determine, through exercise of management's professional judgment, that an organization that does not meet the specific financial accountability criteria should be included as a component unit to prevent the reporting entity's financial statements from being misleading. This determination should be based on the nature and significance of the organization's relationship with the primary government.~~Paragraph 12(e) 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.

40a. Certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access,^{5a} a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

[GASBS 39, ¶5]

41. In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated^{5b} with, the primary government. Generally, relationships that would cause the need for that evaluation by the primary government's management are financial in nature. For example, such a relationship may exist if there is a potential significant financial benefit to, or financial burden on, the primary government that is determined to be other than temporary. 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 in the reporting entity. [GASBS 14, ¶41; GASBS 39, ¶6]

Reporting Component Units

42. Financial statements of the reporting entity should provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, component units that meet the criteria of [paragraph 53] should be blended as though they are part of the primary government and therefore included in both government-wide and fund financial statements. (See paragraphs [52–54].) However, most component units, including those that meet the criteria of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 5, should be discretely presented and reported in the government-wide statements. Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the primary government's fiduciary funds. [GASBS 14, ¶42; GASBS 34, ¶6 and ¶125; GASBS 39, ¶7]

^{5a}The ability of the primary government to *otherwise access* the resources of an organization does not necessarily imply *control* over that organization or its resources; rather, it entails a broader concept. As noted in paragraph 29 of Statement 14, 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. A primary government's *ability to otherwise access* may be demonstrated in several ways. For example, the primary government or its component units historically may have received, directly or indirectly, a majority of the economic resources provided by the organization, the organization previously may have received and honored requests to provide resources to the primary government, or the organization is a *financially interrelated* organization, as defined by [FASB Codification 958-605-15]. [GASBS 39, ¶5]

^{5b}Financial integration may be exhibited and documented through the policies, practices, or organizational documents of either the primary government or the organization being evaluated as a potential component unit.

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 columns and rows separate from the financial data of the primary government. Financial data for component units that are fiduciary in nature should be reported only in the fund financial statements in the primary government's statements of fiduciary net assets and changes in fiduciary net assets. That data should be reported using the economic resources measurement focus and accrual basis of accounting. All other discretely presented component units should be reported only in the government-wide financial statements. The government-wide statement of net assets and statement of activities should include one or more columns to display the combined data of the discretely presented component units, prepared using the economic resources measurement focus and accrual basis of accounting. The discrete column(s) should be located to the right of the total column 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. [GASBS 14, ¶44, as amended by GASBS 35, ¶5; GASBS 34, ¶14, ¶106, ¶107, ¶125, and ¶126]

45. *Superseded by GASBS 34, ¶13 and ¶14.*

46. *Superseded by GASBS 34, ¶13, ¶14, and ¶16.*

47. *Superseded by GASBS 34, ¶13, ¶14, and ¶16.*

48. *Superseded by GASBS 35, ¶5.*

49. *Superseded by GASBS 34, ¶14.*

50. Combining financial statements for nonmajor discretely presented component units [see paragraph 51] 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 nonmajor funds of the primary government. The data presented for each component unit in the combining statements generally should be the entity totals derived from the component units' statements of net assets and activities.^c Presentation of the fund financial statements of the individual component units is not required unless such information is not available in separately issued financial statements of the component unit. [GASBS 14, ¶50; GASBS 34, ¶126; GASBS 37, ¶18]

Major Component Unit Information Disclosures

51. Certain information should be presented about each major component unit included in the financial reporting entity, except for component units that are fiduciary in nature. The determination that a component unit is "major" should be based on the nature and significance of its relationship to the primary government. This determination generally would be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. ~~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.~~ Major component unit reporting requirements should be satisfied by (1) presenting each major component unit in a separate column in the reporting entity's statements of net assets and activities, (2) including combining statements of major component units in the reporting entity's basic statements after the fund financial statements, or (3) presenting condensed financial statements in the notes to the reporting entity's financial statements. Nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required, but may be presented as supplementary information. [GASBS 14, ¶51, as amended by GASBS 34, ¶127 and fn50; GASBS 34, ¶126 and fn49]

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

^cBecause component units that are engaged only in business-type activities are not required to prepare a statement of activities, this disclosure should be taken from the information provided in the component unit's combined statement of revenues, expenses, and changes in fund net assets. [GASBS 34, fn51]

same as the primary government. These component units should be reported as part of the primary government in both the fund financial statements and the government-wide financial statements. 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. [GASBS 14, ¶52; GASBS 34, ¶6 and ¶125]

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

- a. The component unit's governing body is substantively the same as the governing body of the primary government;⁷ and (1) there is a financial benefit or burden relationship between the primary government and the component unit, as described in paragraphs 27–33 or (2) management of the primary government has operational responsibility for the component unit. Management of a primary government has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Management, for purposes of this determination, consists of the person(s), below the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager).
- 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~~

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.

~~administer its employee benefit programs exclusively benefits the primary government even though it that provides services to on behalf of the primary government to its employees rather than directly to the primary government itself.~~

- c. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Repayment generally occurs through a continuing irrevocable pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments to bondholders as the primary source of repayment for its debt.

Reporting the Funds of a Blended Component Unit

54. Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the funds of the component unit are subject to the same financial reporting requirements as the primary government's own funds, including those regarding major fund reporting. The funds of a blended component unit should be blended with those of the primary government presented by including them with the primary government's other funds in the appropriate fund financial statements and combining statements, if presented 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 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. In addition, for governments engaged only in business-type activities that use a single column for financial statement presentation, a component unit may be blended by consolidating its financial statement data within the single column of the primary government and presenting combining information in the notes to the financial statements. [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6]

Equity Interests in Component Units~~Investments in For-Profit Corporations~~

55. If a government acquires owns a majority of the equity interest (as defined in paragraph 72) in a legally separate organization (for example, through acquisition of its voting stock) of a for profit corporation, the government's objective in making the acquisition intent for owning the stock should determine whether the ~~corporation organization~~ should be ~~is~~ presented as a component unit or an investment of the primary government. If the government's intent in acquiring a majority equity interest is to directly enhance its ability to provide governmental services, the organization should be reported as a component unit. 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 equity interest should be reported as an asset of the fund that has the equity interest (subject to reporting requirements for governmental funds discussed in paragraph 74). However, if the component unit is

~~blended, the asset associated with the equity interest should be eliminated and replaced with the complete statement of net assets of the component unit. Changes in the equity interest should be reported pursuant to the requirements in paragraphs 73 and 74. The intent of the government in obtaining the company is to directly enhance its ability to provide governmental services. On the other hand, If, however, the government makes the acquisition for the purpose of obtaining income or profit a government that purchases stock of a corporation as an investment rather than to enhance its ability to provide directly aid in the provision of governmental services, it should report its equity interest the stock either as an investment, regardless of the extent of its ownership, in a joint venture (as discussed in paragraphs 69-74) or as provided in Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. [GASBS 14, ¶55; GASBS 31, ¶5]~~

56. *Superseded by GASBS 34, ¶130.*

57. *Superseded by GASBS 34, ¶61.*

Intra-Equity Transactions and Balances

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 [NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 24, as amended]. 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 capital assets would be reported as general capital assets in the government-wide statement of net assets and related debt would be reported as a general long-term liability in the government-wide statement of net assets. 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 [NCGA Statement 1, paragraph 24, as amended]. 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 NCGA Statement 1, paragraphs 145, 147 and 156, as amended. [GASBS 14, ¶58, as amended by GASBS 34, ¶67; GASBS 34, ¶80 and ¶82]

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, 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. [GASBS 14, ¶60, as amended by GASBS 34, ¶61]

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-rationale~~ for including ~~the each~~ component units in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. ~~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's basic financial statements encompass:

- a. Governmental and business-type activities, major funds individually, and nonmajor funds in the aggregate of the primary government (including its blended component units).

- b. Major 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 each component 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. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 14, ¶63, as amended by GASBS 34, ¶6; GASBS 34, ¶113]

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.

Separately Issued Financial Statements of Component Units

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 separately issued 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. [GASBS 14, ¶65, as amended by GASBS 34, ¶6]

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 20. 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~~ Even though 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 [information required for related party transactions]. 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

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 "Equity interest 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 equity interest 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 change in net assets, regardless of whether the amount is actually remitted. In calculating the participant's share of the change in net assets of the joint venture, any profit on the operating transactions between

⁹As 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.

¹⁰The 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.

the proprietary fund and the joint venture or capital contributions from the joint venture participants should be eliminated. Nonoperating transactions between the joint venture and the proprietary fund should be reported in the joint venture's statement of revenues, expenses, and changes in net assets. The equity interest should be reported in the proprietary fund's statement of net assets as a single amount, and the fund's share of the joint venture's change in net assets should be reported in its statement of revenues, expenses, and changes in fund net assets as a single amount. [GASBS 14, ¶73; GASBS 34, ¶91 and ¶103]

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 equity interest investment in joint venture" as an asset in a governmental fund. 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 governmental fund, however, should be limited to amounts appropriately reported under the current financial resources measurement focus. Amounts reported in the governmental fund balance sheet may include, for example, an amount payable to, or receivable from, the joint venture. The governmental fund statement of revenues, expenditures, and changes in fund balances 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. The entire equity interest in a joint venture should be reported in the government-wide statement of net assets. [GASBS 14, ¶74, as amended by GASBS 34, ¶6; GASBS 34, ¶78-¶80 and ¶82]

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 [paragraph 68].

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 [applicable lease guidance].

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 for component units^{10a} and paragraph 68 for related organizations. However, the other (minority) governmental 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

^{10a} Any equity interests that the majority participant primary government has in the component unit should be reported as an asset according to the provisions of paragraph 55.

the minority participants as ~~fund balance or net assets “reserved for minority interests.”~~ “restricted net assets, nonexpendable.” 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 and has a financial benefit or burden relationship with that participating government. This type of organization should be reported, by all participants, in the manner described earlier in this paragraph. [GASBS 14, ¶78, as amended by GASBS 34, ¶32 and ¶98]

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 [GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraphs 69 and 70, as amended; and GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, paragraphs 4 through 7, as amended]. Entities participating in an external investment pool should follow the accounting and reporting guidance provided in [Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, and other applicable investment guidance]. Entities should not consider participation in, or capitalization contributions to, a public entity risk pool to be an equity interest in a joint venture.** [GASBS 14, ¶79; GASBI 4, ¶3]

**[GASBS 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, ¶73], provides that entities that participate in risk-sharing pools under retrospectively rated policies or contracts should “accrue additional premiums or refunds on the basis of the group’s experience to date . . .” (emphasis added). However, the recognition of these refunds is not equivalent to an equity interest and should not be construed as such. [GASBI 4, fn1]

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 pension and other postemployment benefit plans are not considered joint ventures for purposes of this Statement. Reporting and disclosure requirements for multiple-employer pension and other postemployment benefit plans are included in [Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended]. [GASBS 14, ¶81, as amended by GASBS 43, ¶11]

Statement 34, as Previously Amended and as Amended by This Statement

Restricted Net Assets

34. Net assets should be reported as restricted when constraints placed on net asset use are either: ¹⁵

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation,¹⁶ as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) *and* includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The amount of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation should be disclosed in the notes to the financial statements. [GASBS 34, ¶34; GASBS 46, ¶6]

35. When permanent endowments, ~~or~~ permanent fund principal amounts, or minority interest in a component unit are included, "restricted net assets" should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity or that represent minority interests in component units.

¹⁵Because different measurement focuses and bases of accounting are used in the government-wide statement of net assets and in governmental fund statements, amounts reported as *restricted fund balances* in governmental funds may be different from amounts reported as *restricted net assets* in the statement of net assets. [GASBS 34, fn24, as amended by GASBS 54, ¶8]

¹⁶Enabling legislation also includes restrictions on asset use established by a governmental utility's own governing board when that utility reports based on FASB Statement 71.

Appendix D

FLOWCHART FOR EVALUATING AND PRESENTING COMPONENT UNITS

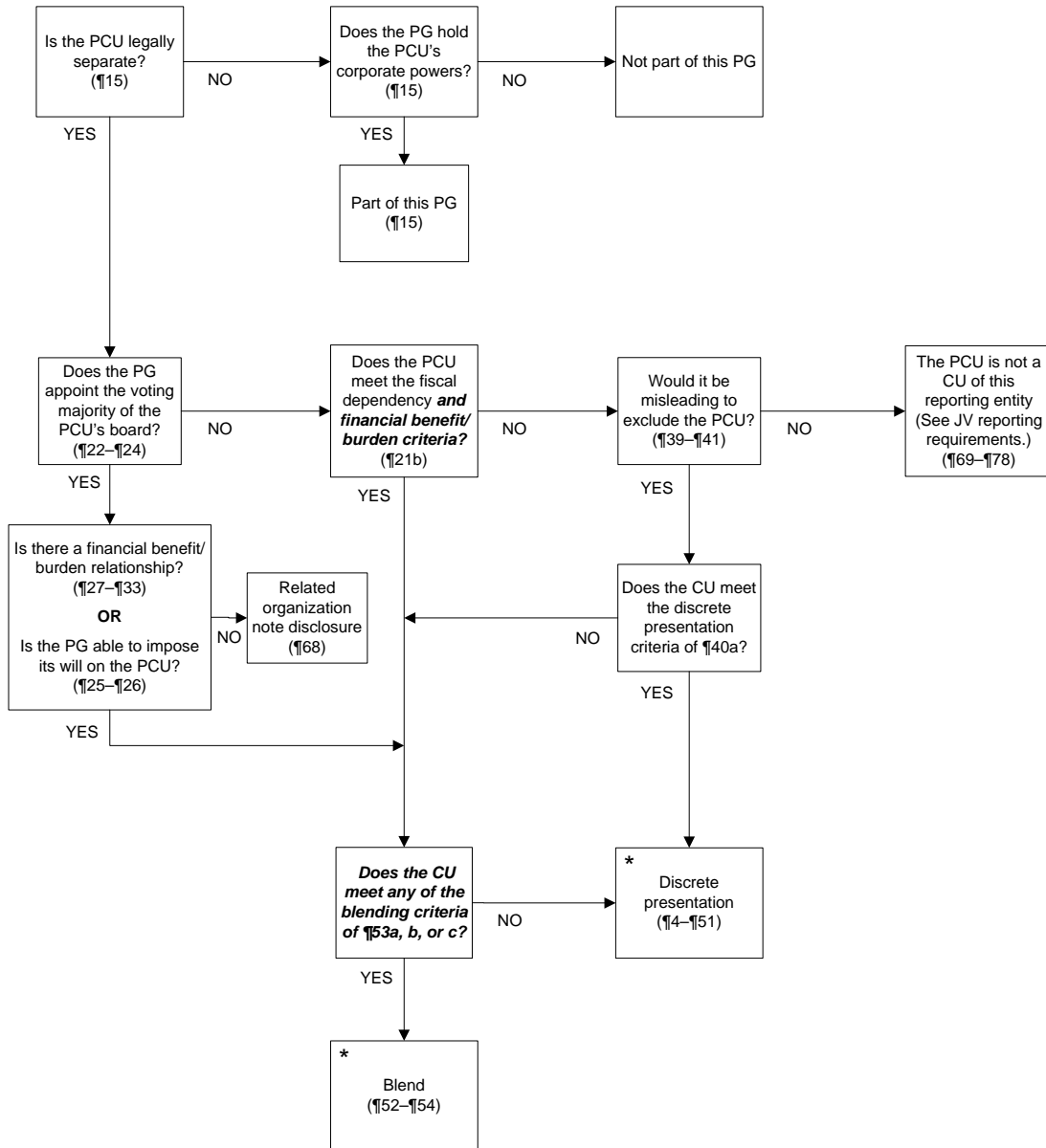
59. The following flowchart is intended to aid in the application of the provisions of this Statement. The flowchart is nonauthoritative and does not cover all aspects of the Statement. It should not be used in place of the Statement itself. Changes made by this Statement are in *bold and italics*.

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 E

CODIFICATION INSTRUCTIONS

60. The sections that follow update the June 30, 2009, *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: [Add the following:] GASB Statement XX

.114 [Replace the first sentence of subparagraph d with the following:] As discussed in Section 2100, the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable (see Section 2100, paragraphs .120–.136). In addition, the primary government may determine that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, that organization should be included as a component unit (see Section 2100, paragraphs .138–.140). [NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶15 and ¶25, and GASBS 34, ¶15, ¶80, and ¶82; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 34, ¶6, ¶13–¶16, ¶18, ¶21, ¶22, ¶30, ¶53, ¶63, ¶75, ¶79, ¶80, ¶82, ¶88, ¶89, ¶92, ¶101, ¶106, ¶108, ¶112, ¶125, and fn53; GASBS 34, ¶100, as amended by GASBS 48, ¶21; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24; GASBS 34, ¶130, as amended by GASBS 41, ¶3; GASBS 37, ¶6 and ¶10; GASBS 42, ¶9; GASBS 51, ¶17; GASBS XX, ¶4]

* * *

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

Sources: [Add the following:] GASB Statement XX

.138 [Replace current paragraph .138 with GASBS XX, ¶12b, except for “Paragraph 35 of Statement 34:”] [GASBS 34, ¶35; GASBS XX, ¶12]

* * *

Sources: [Add the following:] GASB Statement XX

.111 [Replace the first sentence with the following:] As discussed in detail below, the financial reporting entity consists of the primary government and organizations for which the primary government is **financially accountable** (see paragraphs .120–.136). In addition, the primary government may determine that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, that organization should be included as a component unit (see paragraphs .138–.140). [GASBS 14, ¶12, as amended by GASBS 34, ¶6; GASBS XX, ¶4]

.119 [Revise the last sentence as follows:] 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 (as discussed in paragraphs .138–.140). [GASBS 14, ¶20; GASBS XX, ¶4]

.120 [Replace subparagraph b with the following:] The primary government may be financially accountable if an organization is fiscally dependent (paragraphs .115–.117) on *and* there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government (paragraphs .126–.132) 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 .133–.137). [GASBS 14, ¶21; GASBS XX, ¶6]

.126 [Revise the third and fourth sentences as follows:] If a primary government appoints a voting majority of an organization’s officials or if the organization is fiscally dependent on the primary government *and* there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, *any one* of these conditions exists: [GASBS 14, ¶27, as amended by GASBS XX, ¶6]

[Replace section heading before paragraph .133 with the following:]

Financial Accountability Arising from Fiscal Dependency

.133 [Add the following to the end of the paragraph:] A fiscally dependent government that has the potential to provide a financial benefit to, or to impose a financial burden on, a primary government would be reported as part of that primary government’s financial reporting entity. Paragraphs .126–.132 provide the criteria for determining whether a financial benefit or burden relationship exists. [GASBS 14, ¶34; GASBS XX, ¶6]

.134 [Revise the last sentence as follows:] These school districts (sometimes called “dependent school districts”) should be reported as component units of the primary

government on which they are fiscally dependent if a financial benefit or burden relationship also exists. [GASBS 14, ¶35; GASBS XX, ¶6]

.135 [Revise the last sentence as follows:] As discussed in paragraph .137, these school boards usually would be included in the local government’s financial reporting entity because of their fiscal dependency on the local government if there also is a financial benefit or burden relationship with it, even though the local government does not appoint any members of the school district’s governing board. [GASBS 14, ¶36; GASBS XX, ¶6]

.136 [Revise the last sentence as follows:] 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 if a financial benefit or burden relationship also exists. [GASBS 14, ¶37; GASBS XX, ¶6]

.137 [Revise the second sentence as follows:] However, that organization may also be fiscally dependent on and have a financial benefit or burden relationship with another state or local government (as discussed in paragraphs .115–.117 and .120b). [Revise the last sentence as follows:] Usually, fiscal dependency on a local government should govern in determining the appropriate reporting entity of such school districts. [GASBS 14, ¶38, as amended by GASBS XX, ¶6]

.138 [Replace current paragraph .138 with GASBS XX, ¶4c, except for “Paragraph 39 of Statement 14, as amended.”][GASBS 14, ¶39; GASBS 39, ¶5; GASBS XX, ¶4]

.141 [Insert the following after the first sentence:] Generally, relationships that would cause the need for that evaluation by the primary government’s management are financial in nature. For example, such a relationship may exist if there is a potential significant financial benefit to, or financial burden on, the primary government that is determined to be other than temporary. [GASBS 14, ¶41; GASBS 39, ¶6; GASBS XX, ¶5]

[Insert the following new paragraph .519; renumber subsequent paragraphs.]

.519 Operational responsibility. The level of responsibility that exists when management of a primary government manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies. Management, for purposes of this determination, consists of the person(s), below the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager). [2600.113] [GASBS XX, ¶8]

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION 2200

Sources: [Add the following:] GASB Statement XX

.123 [Replace current paragraph .123 with GASBS XX, ¶12b, except for “Paragraph 35 of Statement 34, as amended:”] [GASBS 34, ¶35; GASBS XX, ¶12]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add the following:] GASB Statement XX

.105 [Replace the last sentence with the following:] A specific type of disclosure might be essential for one component unit but not for another depending on the individual component unit’s relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 14, ¶63; GASBS XX, ¶11]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE

SECTION 2600

Sources: [Add the following:] GASB Statement XX

.102 [Replace the first sentence with the following:] Section 2100 states that the financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable (see Section 2100, paragraphs .120–.136). In addition, the primary government may determine that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. In such instances, that organization should be included as a component unit (see Section 2100, paragraphs .138–.140). [GASBS 14, ¶12 and ¶20; GASBS XX, ¶4]

[Replace section heading before paragraph .108 with the following:]

Major Component Unit Information

.108 [Replace current paragraph .108 with GASBS XX, ¶7a, except for “Paragraph 51 of Statement 14, as amended:”] [GASBS 14, ¶51, as amended by GASBS 34, ¶127 and fn50; GASBS 34, ¶126 and fn49; GASBS XX, ¶7]

.113 [Replace current paragraph .113 with GASBS XX, ¶8a, except for “Paragraph 53 of Statement 14, as amended:” and update cross-references; update current footnote 5 references.] [GASBS 14, ¶53; GASBS XX, ¶8]

⁵[GASBS 14, fn7; GASBS XX, ¶8]

.114 [Replace current paragraph .114 with GASBS XX, ¶9a, except for “Paragraph 54 of Statement 14, as amended:”] [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6; GASBS XX ¶9]

[Replace section heading before paragraph .115 with the following:]

Equity Interests in Component Units

.115 [Replace current paragraph .115 with GASBS XX, ¶10a, except for “Paragraph 55 of Statement 14, as amended:” and update cross-references.] [GASBS 14, ¶55 and ¶73; GASBS 31, ¶5; GASBS XX, ¶10]

.120 [Revise second sentence as follows:] This disclosure should include a discussion of the rationale for including each component unit in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. [GASBS 14, ¶61; GASBS XX, ¶11]

.122 [Replace current paragraph .122 with GASBS XX, ¶11b, except for “Paragraph 63 of Statement 14, as amended:”] [GASBS 14, ¶63, as amended by GASBS 34, ¶6; GASBS 34, ¶113; GASBS XX, ¶11]

.125 [Revise the fifth and sixth sentences as follows:] Even though this section is written from the perspective of a primary government, a stand-alone government should apply the provisions of this section 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. [GASBS 14, ¶66; GASBS XX, ¶4]

* * *

CLAIMS AND JUDGMENTS

SECTION C50

Sources: [Add the following:] GASB Statement XX

.146 [Replace the fifth sentence with the following:] A specific type of disclosure might be essential for one component unit but not for another depending on the individual component unit’s relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 10, ¶78, as amended by GASBS 34, ¶6; GASBS 14, ¶11 and ¶63; GASBS 34, ¶113; GASBS XX, ¶11]

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INVESTMENTS

SECTION I50

Sources: [Add the following:] GASB Statement XX

.123 [Replace the last sentence with the following:] A specific type of disclosure might be essential for one component unit but not for another depending on the individual component unit's relationship with the primary government. For example, if a primary government is obligated in some manner for the debt of a particular component unit, it is likely that debt-related disclosures should be made for that component unit. [GASBS 14, ¶11 and ¶63; GASBS XX, ¶11]

* * *

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

SECTION J50

Sources: [Add the following:] GASB Statement XX

.106 [Replace *investment* with *equity interest*.] [GASBS 14, ¶73, as amended by GASBS XX, ¶10; GASBS 34, ¶91 and ¶103]

.107 [Replace *investment* with *equity interest*.] [GASBS 14, ¶74, as amended by GASBS 34, ¶6, and GASBS XX, ¶10; GASBS 34, ¶78–¶80 and ¶82]

.112 [Replace current paragraph .112 with GASBS XX, ¶12a, except for “Paragraph 78 of Statement 14, as amended:”; update cross-references, insert new footnote 4, and renumber subsequent footnote.] [GASBS 14, ¶78, as amended by GASBS 34, ¶32 and ¶98; GASBS XX, ¶12]

⁴Any equity interests that the majority participant primary government has in the component unit should be reported as an asset according to the provisions of Section 2600, paragraph .115. [GASBS XX, ¶12]

* * *

COLLEGES AND UNIVERSITIES

SECTION Co5

Sources: [Add the following:] GASB Statement XX

.108 [Revise the third and fourth sentences as follows:] Even though both sections are written from the perspective of a primary government, a stand-alone, special-purpose government should apply the provisions of those sections 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. [GASBS 14, ¶66; GASBS XX, ¶4]

.109 [Insert GASBS XX, ¶9a, except for "Paragraph 54 of Statement 14, as amended:"]

[GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6; GASBS XX, ¶9]

* * *

HOSPITALS AND OTHER HEALTHCARE PROVIDERS

SECTION Ho5

Sources: [Add the following:] GASB Statement XX

.109 [Revise the third and fourth sentences as follows:] Even though both sections are written from the perspective of a primary government, a stand-alone government should apply the provisions of those sections 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. [GASBS 14, ¶66; GASBS XX, ¶4]

.110 [Insert GASBS XX, ¶9a, except for "Paragraph 54 of Statement 14, as amended:"]

[GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6; GASBS XX, ¶9]

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SPECIAL-PURPOSE GOVERNMENTS

SECTION Sp20

Sources: [Add the following:] GASB Statement XX

.113 [Revise the third and fourth sentences as follows:] Even though both sections are written from the perspective of a primary government, a stand-alone special-purpose government should apply the provisions of those sections 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. [GASBS 14, ¶66; GASBS XX, ¶4]

.114 [Insert GASBS XX, ¶9a, except for “Paragraph 54 of Statement 14, as amended:”]

[GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6; GASBS XX, ¶9]

* * *

UTILITIES

SECTION Ut5

Sources: [Add the following:] GASB Statement XX

.109 [Revise the third and fourth sentences as follows:] Even though both sections are written from the perspective of a primary government, a stand-alone government should apply the provisions of those sections 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. [GASBS 14, ¶66; GASBS XX, ¶4]

.110 [Insert GASBS XX, ¶9a, except for “Paragraph 54 of Statement 14, as amended:”; renumber subsequent paragraph.]

[GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82; GASBS 34, ¶6; GASBS XX, ¶9]