
NO. 309-B | NOVEMBER 2010

Governmental Accounting Standards Series

Statement No. 61 of the
Governmental Accounting
Standards Board

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



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

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

This Statement modifies 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 need 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 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends 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 additionally requires 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 are 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 are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is 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 Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

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

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement 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 amendments to the criteria for including component units 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 amendments to the criteria for blending 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 guidance for reporting blended component units allows users to better distinguish between the primary government and its component units by requiring condensed combining information to be included in the notes to the financial statements.

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

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.

Statement No. 61 of the
Governmental Accounting
Standards Board

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

November 2010



Governmental Accounting Standards Board
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Statement No. 61 of the Governmental Accounting Standards Board

The Financial Reporting Entity: Omnibus

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

November 2010

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Statement No. 61 of the Governmental Accounting Standards Board

The Financial Reporting Entity: Omnibus

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

November 2010

INTRODUCTION

1. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements 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 NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, Summary of Principles, no. 12; Statement 14, paragraphs 12, 20, 21, 27, 34–39, 41, 51, 53–55, 61, 63, 66, 73, 74, and 78; Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, paragraph 5; 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 the “misleading to exclude” provisions 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, through exercise of management’s professional judgment, 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 statements. 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,^{5a3} or financially integrated with,^{5b} the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity.

^{5a3}For purposes of this evaluation, the focus generally would be on financial relationships.

^{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 also 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^{4b} 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 and 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 is financially accountable^{5a1} if an organization is fiscally dependent (paragraphs 16–18) *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).

^{4b}Inclusion as a component unit is subject to the considerations in paragraph 38 regarding the potential for dual inclusion.

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).

^{5a1}See footnote 4b.

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^{5a2} 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.

^{5a2}See footnote 4b.

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 any one of the following: (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 financial 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 pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments 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 so that decisions of the primary government cannot be overridden by the component unit. 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 10) 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 financial reporting requirements as a fund of the primary government. In addition, paragraph 54 is amended to provide 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. 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.

54a. 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 condensed combining information in the notes to the financial statements. The condensed combining information should include the following details, at a minimum:

- (1) Condensed statement of net assets:
 - (a) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from the primary government or other component units should be reported separately.
 - (b) Total liabilities—distinguishing between current and long-term amounts. Amounts payable to the primary government or other component units should be reported separately.
 - (c) Total net assets—distinguishing among amounts invested in capital assets, net of related debt; restricted (separately reporting expendable and nonexpendable components); and unrestricted.
- (2) Condensed statement of revenues, expenses, and changes in net assets:
 - (a) Operating revenues (by major source)
 - (b) Operating expenses—identifying depreciation (including any amortization) separately
 - (c) Operating income (loss)
 - (d) Nonoperating revenues (expenses)—with separate reporting of major revenues and expenses
 - (e) Capital contributions and additions to permanent and term endowments
 - (f) Special and extraordinary items
 - (g) Transfers
 - (h) Change in net assets
 - (i) Beginning net assets
 - (j) Ending net assets.
- (3) Condensed statement of cash flows:
 - (a) Net cash provided (used) by:
 - i. Operating activities
 - ii. Noncapital financing activities
 - iii. Capital and related financing activities
 - iv. Investing activities
 - (b) Beginning cash and cash equivalent balances
 - (c) Ending cash and cash equivalent balances.

Amendments to the Requirements for Reporting Equity Interests in Component Units

10. Paragraph 55 of Statement 14 (and paragraph 78, presented in paragraph 12 of this Statement) is amended to clarify the reporting of equity 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 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), the government's intent for owning the equity interest should determine whether the organization should be presented as a component unit or an investment of the primary government. If the government's intent for owning 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. When such a component unit is discretely presented, 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). Changes in the equity interest should be reported pursuant to the requirements in paragraphs 73 and 74. When such a component unit is blended, in the period of acquisition the purchase typically should be reported as an outflow of the fund that provided the resources for the acquisition and, in that and subsequent reporting periods, the component unit should be reported pursuant to the blending requirements of paragraph 54. If, however, the government owns the equity interest for the purpose of obtaining income or profit rather than to directly 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. Component units may be disclosed together if they have common characteristics as long as each component unit is separately identified. 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 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.

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

*This Statement was issued by unanimous vote of the seven members of the
Governmental Accounting Standards Board.*

Robert H. Attmore, *Chairman*
Michael D. Belsky
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor
James M. Williams

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 organizations that should be included 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 of Statement 14 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 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 August 2005, 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's 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 technical agenda. At the April 2008 meeting, the Board considered the research findings and GASAC member input; the reexamination project was then added to the current technical agenda.

20. The GASB staff also 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 March 2010, the Board issued an Exposure Draft, *The Financial Reporting Entity*, an amendment of GASB Statements No. 14 and No. 34. The Board received 37 responses to the Exposure Draft. In addition, 15 governments field tested the proposed standard. The comments and suggestions from the organizations and individuals that responded to the

Exposure Draft and participated in the field test contributed to the Board's deliberations in finalizing the requirements of this Statement.

23. 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

24. 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

25. 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.)

26. Based on the research and the review of other reporting entity standards, 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

27. 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 by the primary government.

28. 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, this approach is not as relevant 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.

29. 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 that approach, the imposition of will criteria would have been removed from the financial accountability concept, and a financial benefit or burden relationship would be required for all component units. 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.

30. 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. Although the Exposure Draft proposed modifications to inclusion of component units under the financial accountability concept, it did not propose changes to

the concept itself. None of the respondents to the Exposure Draft appeared to question the appropriateness of the financial accountability concept.

Reconsideration of the Fiscal Dependency Criteria

31. 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. Some practitioners have not distinguished the term *fiscal dependency* from *financial dependency*. The Board considered other terms during the deliberation phase of the project and decided to retain the term *fiscal dependency* primarily because other viable alternatives are used in other contexts and would likely be similarly misinterpreted. The Board considered two approaches to amending the fiscal dependency criteria. Those approaches are discussed in the following paragraphs.

32. 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.

33. 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. Conforming amendments also were made to other paragraphs that refer to the fiscal dependency criteria. 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 and 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.

34. Most of the respondents who commented on the fiscal dependency criteria indicated general agreement, and none of the respondents to the Exposure Draft appeared to disagree with the proposed amendments.

The Misleading to Exclude Criterion

35. 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" (Statement 39, paragraph 33).

36. 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 if those organizations are closely related to, or financially integrated with, the

primary government. In addition, this Statement clarifies the types of relationships that the Board believes typically are more important for an evaluation under this criterion for a *closely related* organization. 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

37. 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 51, which provides guidance for identifying major component units. 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.

38. 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.

39. 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.

40. The Board considered a quantitative approach to determining major component units. This method would apply percentages, as is done in determining major funds, to financial statement elements to determine major component units. Applying a relative percentage approach to discretely presented component units could result in a more 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 an approach to determining major component units based on their size relative to each other would not be appropriate.

41. 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 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 component unit criteria.

42. 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 Blending Principle

43. One of the objectives of Statement 14 was to avoid obscuring the financial data of a primary government by inappropriately blending component unit data. Thus, blending under Statement 14 is limited to component units that are so intertwined with the primary government that they function much like a fund or department of the primary government.

44. Some of the respondents expressed agreement with the current blending principle; however, others preferred a different blending principle based on control. Paragraph 123 in the Basis for Conclusions of Statement 14 states that, “only in specific situations in which a component unit is, in substance, an integral part of the primary government should a component unit be blended.” Primary governments often have control of organizations that are not an integral part of themselves. The notion of control as the foundation for the governmental financial reporting entity was considered during deliberations leading to Statement 14 and rejected in favor of the financial accountability concept because “control” is difficult to assess in the governmental environment and likely would be inconsistently applied and ineffective. The Board has reaffirmed the Statement 14 blending principle in this Statement.

The “Substantively the Same Governing Body” Criterion

45. 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, as amended states “‘substantively the same’ means sufficient representation of the primary government’s entire governing body on the component unit’s governing body so that decisions of the primary government cannot be overridden by the component unit.”

46. 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 Board was persuaded by concerns that blending these component units tends to obscure the data of the primary government’s legal entity 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.

47. To address these concerns, the Board added two additional criteria, either of which should be met so that the relationship between the primary government and the component unit would not have the appearance of being overstated if the component unit were blended. First, the Board concluded that a financial benefit or burden requirement 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 body is

substantively the same as that of the primary government, would be blended if the primary government also has a financial benefit or burden relationship with that component unit.

48. Second, 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 body.

49. Some respondents sought additional opportunities for blending. Other respondents disagreed with the guidance in footnote 7 in Statement 14, which states that the substantively the same body 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.” Still others requested that the criterion be satisfied if the governing body is substantively the same as that of the primary government *or* its management. Most of the users surveyed during the research phase of this project were generally satisfied with the blending notion. The Board continues to believe, as discussed in Statement 14, that discrete presentation should be the presumed method for inclusion of component units and

that blending should occur only in specific narrowly defined circumstances. The Board further believes that those circumstances are appropriately defined by the blending criteria as amended by this Statement. Expanding the blending requirements, as some respondents suggest, would be inconsistent with the fundamental display philosophy that is an essential part of the financial accountability concept for defining and displaying the financial reporting entity.

50. Some respondents requested that the Statement specifically address whether the concept of operational responsibility would extend to situations in which the primary government outsources management responsibilities. The Board believes that the determination depends on the facts and circumstances associated with the arrangement.

The Exclusive Benefit Criterion

51. The research conducted for this project generally supported the existing provisions of paragraph 53b of Statement 14, the essence of which is that a component unit should be blended if it entirely or almost entirely serves or benefits the primary government, such as “financing services provided solely to the primary government.” Nevertheless, some survey participants and respondents to the Exposure Draft asked for clarification about the nature of the relationships of state lotteries and tribal casinos to a primary government. They suggested that the principal purpose of those component units is to benefit the primary government by providing financing and, thus, should be blended. The Board acknowledges that a significant financing relationship with a primary government exists; however, in both cases, the component units provide *services* entirely or almost entirely to those external to the government (for example, lottery players) rather than to the primary government itself. Because those external to the government derive a benefit from the

services provided, the component unit does not exclusively or almost exclusively serve or benefit the primary government. Additionally, the Board was concerned that putting heightened emphasis on the financing relationship in these instances might establish a precedent that could lead to blending other component units that serve the public but provide significant financial support to a primary government; for example, a state alcoholic beverage commission. Ultimately, the Board concluded that amending the criteria to specifically address lottery and casino component units would not be appropriate and that application of the guidance as provided in paragraph 53b should determine the method of inclusion for those and other similar component units.

Component Units with Debt Expected to Be Repaid by the Primary Government

52. 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 a component unit is a separate authority created by a state 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. Those component units did not meet the blending criteria under Statement 14 because they do 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, other organizations, or political subdivisions.

53. 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 that 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 resources provided by the primary government—generally through a continuing pledge and appropriation of specific revenues to the component unit (which, in turn, pledges those resources for repayment of the debt). Thus, the Board concluded that the blending requirements should be expanded to include component units whose total debt outstanding, including leases, 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 various sources of repayment available

to the component unit, including, for example, resources provided by other parties and revenues of the component unit.

54. 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.

55. Some respondents called for blending to be based on pledges of revenues for *any* purpose, not just for debt service. That approach would essentially expand the blending requirement to include *all* component units to which a government pledges or shares revenue. As noted earlier, the Board's intent in requiring those debt-issuing component units to be blended is to recognize the debt as, in substance, the debt of the primary government. For that reason, the Board did not accept the suggestion to further expand the requirement.

Reporting the Funds of a Blended Component Unit

56. 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.

57. Paragraph 54 of Statement 14 states that “the general fund of a blended component unit should be reported as a special revenue fund.” One respondent questioned whether this guidance conflicts with the definition of a special revenue fund in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Board notes that Statement 54 does not amend the requirement that the general fund of a blended component unit be reported as a special revenue fund of the primary government.

58. Because paragraph 54, as originally written, explained the mechanics of blending in the context of a general purpose government with multiple funds, 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 business-type activity and presenting condensed 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. Some respondents questioned the format of the combining information and whether combining information also should be provided for the blended component unit’s statement of cash flows. To address those concerns, the Board provided explicit guidance

for the condensed combining information, including for cash flows, based on the requirements for segment information in Statement 34.

Reporting Equity Interests in Component Units

59. Paragraph 55 of Statement 14 originally provided that 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.

60. To address this issue, 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.

61. The Board believes that equity interest meets the definition of an "asset" in Concepts Statement No. 4, *Elements of Financial Statements*. Paragraph 3 of Concepts Statement 4 provides that its definitions of financial statement elements apply to legally separate entities, including primary governments. Accordingly, this Statement requires primary governments to recognize 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 or expenditure. However, if the component unit is blended, the *reporting entity* would report the component unit rather than the asset. In the year of acquisition, the purchase generally would be reported as an outflow of the purchasing fund. 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. If an optional total column for the reporting entity is presented, the equity interest would be eliminated and only the discretely presented component unit's financial statement information would remain.

62. 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

63. The Shoulders's 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.

64. 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 Statement 14, 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. Some respondents to the Exposure Draft were concerned about voluminous and repetitive notes if separate disclosure were required for each individual component unit. It was not the Board's intent to require individual disclosures for each component unit that is included in the reporting entity for the same reasons as other component units. Therefore, the Board further amended the disclosure requirements to clarify that component units may be disclosed together based on common characteristics as long as each component unit is separately identified.

Component Units and Related Organizations with Joint Venture Characteristics

65. 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.

66. 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.

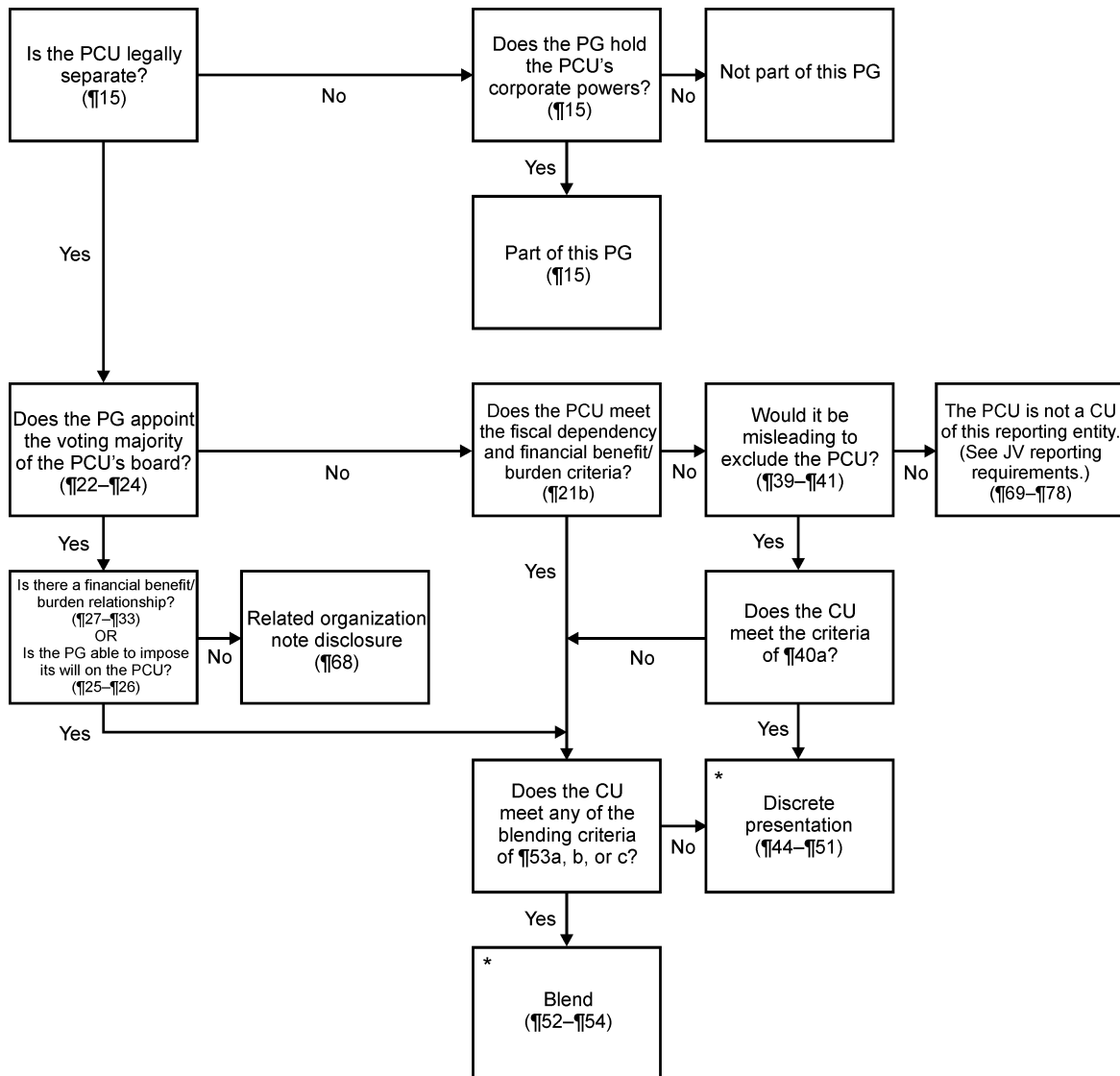
Effective Date

67. This Statement is effective for financial statements for periods beginning after June 15, 2012. Based on the field test results, the Board believes the effective date allows sufficient time for implementation. Some governments may wish to implement earlier than that date. Accordingly, this Statement encourages early application.

Appendix C

FLOWCHART FOR EVALUATING AND PRESENTING COMPONENT UNITS

68. 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. The paragraph references are those of Statement 14, as amended.



***Note:** A potential component unit for which a primary government is financially accountable may be fiscally dependent on and have a financial benefit or burden relationship with 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.

PCU = Potential component unit
PG = Primary government

CU = Component unit
JV = Joint venture

Appendix D

CODIFICATION INSTRUCTIONS

69. The sections that follow update the June 30, 2010, *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.

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[Revise sections as indicated below. Update cross-references throughout.]

SUMMARY STATEMENT OF PRINCIPLES

SECTION 1100

.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 through exercise of management’s professional judgment 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, ¶19, ¶43, and ¶65; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; 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]

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CLASSIFICATION AND TERMINOLOGY

SECTION 1800

.138 [Replace current paragraph .138 with GASBS 61, ¶12b; omit “Paragraph 35 of Statement 34:”] [GASBS 34, ¶35, as amended by GASBS 61, ¶12]

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DEFINING THE FINANCIAL REPORTING ENTITY

SECTION 2100

Sources: [Add the following:] GASB Statement 61

.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 through exercise of management’s professional judgment 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, and GASBS 61, ¶4]

.119 [Revise footnote 3 sources as indicated below; revise the last sentence of current paragraph .119 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, as amended by GASBS 61, ¶4]

³[Add GASBS 61, ¶4 to sources.]

.120 [Replace current subparagraphs .120a and b with paragraph 4a, subparagraphs a and b, including footnotes; boldface the term *impose its will*; include sources of new footnote 5 as indicated below; renumber subsequent footnotes:] [GASBS 14, ¶21, as amended by GASBS 61, ¶6]

⁵[Include the following sources:] [GASBS 14, fn5; GASBS 61, ¶6]

.126 [Revise the third and fourth sentences as follows, including footnote; renumber subsequent footnotes:] 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 accountable⁷ 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 61, ¶6]

⁷See footnote 4. [GASBS 61, ¶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 61, ¶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, as amended by GASBS 61, ¶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, as amended by GASBS 61, ¶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, as amended by GASBS 61, ¶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 61, ¶6]

.138 [Replace current paragraph .138 with GASBS 61, ¶4c; omit “Paragraph 39 of Statement 14, as amended:”.] [GASBS 14, ¶39, as amended by GASBS 61, ¶4; GASBS 39, ¶5]

.141 [Insert new footnote 9 after “related” in the first sentence as follows; renumber subsequent footnotes; include sources of new footnote 10 as indicated below:] [GASBS 14, ¶41, as amended by GASBS 61, ¶5; GASBS 39, ¶6]

⁹For purposes of this evaluation, the focus generally would be on financial relationships. [GASBS 61, ¶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 61, ¶8]

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION 2200

[Revise the Statement of Principle as follows:]

[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. In addition, the primary government may determine through exercise of management’s professional judgment 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.

[NCGAS 1, ¶128, as amended by GASBS 14, ¶11, ¶19, ¶43, and ¶65; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; GASBS 34, ¶6, ¶13–¶15, ¶63, ¶75, ¶80, ¶82, ¶106, and ¶125; GASBS 44]

.123 [Replace current paragraph .123 with GASBS 61, ¶12b; omit “Paragraph 35 of Statement 34, as amended:”.] [GASBS 34, ¶35, as amended by GASBS 61, ¶12]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

.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, as amended by GASBS 61, ¶11]

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

SECTION 2600

Sources: [Add the following:] GASB Statement 61

[Revise the Statement of Principle as follows:]

[Replace the first sentence of subparagraph c 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. In addition, the primary government may determine through exercise of management's professional judgment 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. [NCGAS 1, ¶128, as amended by GASBS 14, ¶11, ¶19, ¶43, and ¶65; GASBS 14, ¶12 and ¶66, as amended by GASBS 61, ¶4; GASBS 34, ¶6, ¶13–¶15, and ¶125; GASBS 44]

.102 [Replace the first sentence with the following; revise footnote 2 sources as indicated below:] 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 through exercise of management’s professional judgment 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, as amended by GASBS 61, ¶4]

.103 [Add GASBS 61, ¶4 to sources.]

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

Major Component Unit Information

.108 [Replace current paragraph .108 with GASBS 61, ¶7a; omit “Paragraph 51 of Statement 14, as amended:”.] [GASBS 14, ¶51, as amended by GASBS 34, ¶127 and fn50, and GASBS 61, ¶7; GASBS 34, ¶126 and fn49]

.113 [Replace current paragraph .113 with GASBS 61, ¶8a, including footnote (revise footnote sources as indicated below); omit “Paragraph 53 of Statement 14, as amended:”.] [GASBS 14, ¶53, as amended by GASBS 61, ¶8]

⁵[Revise sources as follows:] [GASBS 14, fn7, as amended by GASBS 61, ¶8]

.114 [Replace current paragraph .114 with GASBS 61, ¶9a; omit “Paragraph 54 of Statement 14, as amended:” and new paragraph 54a.] [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82, and GASBS 61, ¶9; GASBS 34, ¶6]

[Insert new paragraph .115 as follows; renumber subsequent paragraphs:]

.115 [GASBS 61, ¶9a, new paragraph 54a only.] [GASBS 61, ¶9]

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

Equity Interests in Component Units

.116 [Replace current paragraph .115 with GASBS 61, ¶10a; omit “Paragraph 55 of Statement 14, as amended:”.] [GASBS 14, ¶55 and ¶73, as amended by GASBS 61, ¶10; GASBS 31, ¶5]

.121 [Replace current paragraph .120 with GASBS 61, ¶11a; omit “Paragraph 61 of Statement 14, as amended:”.] [GASBS 14, ¶61, as amended by GASBS 61, ¶11]

.123 [Replace current paragraph .122 with GASBS 61, ¶11b; omit “Paragraph 63 of Statement 14, as amended:”.] [GASBS 14, ¶63, as amended by GASBS 34, ¶6, and GASBS 61, ¶11; GASBS 34, ¶113]

.126 [Revise the fifth and sixth sentences of current paragraph .125 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, as amended by GASBS 61, ¶4]

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CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

SECTION C20

.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, ¶11; GASBS 14, ¶63, as amended by GASBS 61, ¶11]

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CLAIMS AND JUDGMENTS

SECTION C50

.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; GASBS 14, ¶63, as amended by GASBS 61, ¶11; GASBS 34, ¶113]

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INVESTMENTS

SECTION I50

.104 [In the first sentence, replace *investments in joint ventures or component units* with *ownership of equity interests in joint ventures or component units.*] [GASBS 31, ¶5, as amended by GASBS 61, ¶10]

.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; GASBS 14, ¶63, as amended by GASBS 61, ¶11]

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INVESTMENTS—REVERSE REPURCHASE AGREEMENTS SECTION I55

.108 [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; GASBS 14, ¶63, as amended by GASBS 61, ¶11]

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

Sources: [Add the following:] GASB Statement 61

.106 [Replace *investment* with *equity interest*.] [GASBS 14, ¶73, as amended by GASBS 61, ¶10; GASBS 34, ¶91 and ¶103]

.107 [Replace *investment* with *equity interest*.] [GASBS 14, ¶74, as amended by GASBS 34, ¶6, and GASBS 61, ¶10; GASBS 34, ¶78–¶80 and ¶82]

.112 [Replace current paragraph .112 with GASBS 61, ¶12a, including footnote; omit “Paragraph 78 of Statement 14, as amended.”; renumber subsequent footnote.]
[GASBS 14, ¶78, as amended by GASBS 34, ¶32 and ¶98, and GASBS 61, ¶12]

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COLLEGES AND UNIVERSITIES

SECTION Co5

Sources: [Add the following:] GASB Statement 61

.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, as amended by GASBS 61, ¶4]

[Insert new paragraphs .109 and .110 as follows:]

.109 [Insert GASBS 61, ¶9a; omit, except for “Paragraph 54 of Statement 14, as amended.” and new paragraph 54a.]

[GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82, and GASBS 61, ¶9;
GASBS 34, ¶6]

.110 [GASBS 61, ¶9a, new paragraph 54a only] [GASBS 61, ¶9]

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HOSPITALS AND OTHER HEALTHCARE PROVIDERS

SECTION Ho5

Sources: [Add the following:] GASB Statement 61

.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, as amended by GASBS 61, ¶4]

[Insert new paragraphs .110 and .111 as follows:]

.110 [Insert GASBS 61, ¶9a; omit “Paragraph 54 of Statement 14, as amended:” and new paragraph 54a.] [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82, and GASBS 61, ¶9; GASBS 34, ¶6]

.111 [GASBS 61, ¶9a, new paragraph 54a only] [GASBS 61, ¶9]

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SPECIAL-PURPOSE GOVERNMENTS

SECTION Sp20

Sources: [Add the following:] GASB Statement 61

.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, as amended by GASBS 61, ¶4]

[Insert new paragraphs .114 and .115 as follows:]

.114 [Insert GASBS 61, ¶9a; omit “Paragraph 54 of Statement 14, as amended.” and new paragraph 54a.] [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82, and GASBS 61, ¶9; GASBS 34, ¶6]

.115 [GASBS 61, ¶9a, new paragraph 54a only] [GASBS 61, ¶9]

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UTILITIES

SECTION Ut5

Sources: [Add the following:] GASB Statement 61

.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, as amended by GASBS 61, ¶4]

[Insert new paragraphs .110 and .111 as follows; renumber subsequent paragraph:]

.110 [Insert GASBS 61, ¶9a; omit "Paragraph 54 of Statement 14, as amended." and new paragraph 54a.] [GASBS 14, ¶54, as amended by GASBS 34, ¶75, ¶80, and ¶82, and GASBS 61, ¶9; GASBS 34, ¶6]

.111 [GASBS 61, ¶9a, new paragraph 54a only] [GASBS 61, ¶9]