

**BARS Prior to
GASB 84 –
Fiduciary Activities
Implementation**

This is not the whole BARS manual. It contains excerpts of the BARS manual chosen for the purpose of providing guidance on Delayed Implementation of GASB 84. Please see the full BARS manual at

www.sao.wa.gov

For Cities, Counties and Special Purpose Districts



3. ACCOUNTING

3.1 Accounting Principles and Internal Controls

3.1.1 Fund Types and Accounting Principles

3.1.1.10 The following principles of accounting and financial reporting are based on those set forth in the Governmental Accounting Standards Board's (GASB) [Codification of Governmental Accounting and Financial Reporting Standards](#). The BARS manual permits accounting and financial reporting that conforms to these principles in all respects and requires GAAP municipalities to account and report in conformity with these principles, except that the annual report required is not as extensive as the Comprehensive Annual Financial Report (CAFR).

3.1.1.20 ACCOUNTING AND REPORTING CAPABILITIES

A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities at the government in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

3.1.1.30 FUND ACCOUNTING SYSTEMS

A governmental accounting system should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report detailed information about primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on major funds.

3.1.1.40 TYPES OF FUNDS

In fund financial statements, governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using these funds.

Presented below is a system to classify all funds used by local government and the assignment of code numbers to identify each type of fund. A three digit code is used: the first digit identifies the fund type and the next two digits will be assigned by the governmental unit to identify each specific fund.

Governmental Funds

Code

000 General (Current Expense) Fund – should be used to account for and report all financial resources not accounted for and reported in another fund.

Although a local government has to report only one general fund in its external financial reports, the government can have multiple general *subfunds* for its internal managerial purposes. These managerial subfunds have to be combined into one general fund for external financial reporting.

Special Revenue Funds – should be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. *Restricted* revenues are resources externally restricted by creditors, grantors, contributors or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation (similar to restricted component of net position used in government-wide reporting). *Committed* revenues are resources with limitations imposed by the highest level of the government, and where the limitations can be removed only by a similar action of the same governing body. Revenues do not include other financing sources (long-term debt, transfers, etc.).

The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be foundation for a special revenue fund. They should be expected to continue to comprise a substantial portion of the inflows reported in the fund. While [GASB Statement 54](#) has not provided a numeric range for *substantial* portion of inflows, it was recommended that at least 20 percent is a reasonable limit for reporting a special revenue fund. Local governments need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds in their analysis.

They may use the calculation below to determine whether an activity would qualify for reporting as a special revenue fund.

$$\text{Substantial portion of inflows} = \frac{(\text{restricted revenues} + \text{committed revenues})}{\text{total resources}^* \text{ reported in the fund}}$$

*Total resources would include all revenues and other financing sources.

Other resources (investment earnings and transfers from other funds, etc.) also may be reported in the fund if these resources are restricted, committed, or assigned to the specific purpose of the fund.

Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

The Statement requires all revenue to be recognized in the special revenue fund. If the resources are initially received in another fund, such as the general fund, and subsequently remitted to a special revenue fund, they should not be recognized as revenue in the fund initially receiving them. They should be recognized as revenue in the special revenue fund from which they will be expended. So, the local governments can either receive resources directly into the special revenue fund, or account for the resources as agency deposits in the receiving fund and, after remitting them, recognize them as revenue to the special revenue fund.

Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

The general fund of a blended component unit should be reported as a special revenue fund.

The state statutes contain many requirements for special funds to account for different activities. The legally required funds do not always meet GAAP standards for external reporting. So, while the local governments are required to follow their legal requirements, they will have to make some adjustment to their fund structure for external financial reporting.

- 200 Debt Service Funds – should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions for a special assessment for which the government is not obligated in any matter should be reported in an agency fund. Also, if the government is authorized, or required to establish and maintain a special assessment bond reserve, guaranty, or sinking fund, [GASB Statement 6](#) requires using a debt service fund for this purpose.
- 300 Capital Projects Funds – should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments (private-purpose trust funds).
- 700 Permanent Funds – should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is for the benefit of the government or its citizens (public-purpose). Permanent funds do not include private-purpose trust funds which account for resources held in trust for individuals, private organizations, or other governments.

Proprietary Funds

Code

- 400 Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria:
- Debt backed solely by a pledge of the net revenues from fees and charges.
 - Legal requirement to recover cost. An enterprise fund is required to be used if the cost of providing services for an activity including capital costs (such as depreciation or debt service) must be legally recovered through fees or charges.

- Policy decision to recover cost. It is necessary to use an enterprise fund if the government's policy is to establish activity fees or charges designed to recover the cost, including capital costs (such as depreciation or debt service).

In addition, GAAP mandate the use of enterprise funds for the separately issued financial statement of public-entity risk pools. Public-entity risk pools also are accounted for as enterprise funds when they are included within a sponsoring government's report, provided the sponsor is not the predominant participant in the arrangement. Otherwise, they can use the general fund.

NOTE: Separate funds should not be reported for bond redemption, construction, reserves, or deposits, for any utility that is accounted for on the full accrual basis, using either the BARS accounts or a nationally recognized utility chart of accounts such as FERC or NARUC. Separate funds should not be reported even though bond covenants may stipulate a *bond reserve fund*, *bond construction fund*, etc. The bond covenant use of the term *fund* is not the same as the use in governmental accounting. For bond covenants, *fund* means only a segregation or separate account, not a self-balancing set of accounts. (See account 150 in the general ledger chart of accounts.)

- 500 Internal Service Funds – may be used to report any activity that provides goods or services to other funds, departments or agencies of the government, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported in an enterprise fund.

Fiduciary Funds

Code

- 600 Fiduciary Funds – should be used to account for assets held by a government in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) investment trust funds, (b) pension (and other employee benefit) trust funds, (c) private-purpose trust funds, and (d) agency funds.
- 600-609 Investment Trust Funds – should be used to report the external portion of investment pools reported by the sponsoring government.
- 610-619 Pension (and Other Employee Benefit) Trust Funds – should be used report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.
- 620-629 Private-Purpose Trust Funds – should be used to report escheat property and all other trust arrangement under which principal and income benefit individuals, private organizations and other governments.
- 630-699 Agency Funds – should be used to report resources held by the government in a purely custodial capacity (assets and liabilities). Agency funds typically involve only the receipts, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

3.1.1.50 NUMBER OF FUNDS

Governments should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Using numerous funds results in inflexibility, undue complexity and inefficient financial administration.

Local governments should periodically undertake a comprehensive evaluation of their fund structure to ensure that individual funds that became superfluous are eliminated from accounting and reporting.

Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently by judicious use of department, program and other available account coding or cautious use of managerial (internal) funds.

3.1.1.60 REPORTING CAPITAL ASSETS

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds should be reported only in the statement of fiduciary net position. All other capital assets of the government are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. The *Capital Assets* (3.3.9 - 3.3.11) sections of the BARS manual provide additional information regarding accounting and reporting of capital assets.

3.1.1.90 REPORTING LONG-TERM LIABILITIES

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING IN THE BASIC FINANCIAL STATEMENTS

3.1.1.100 **Government-Wide Financial Statements**

The government-wide statement of net position and statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from nonexchange transactions should be recognized in accordance with the [GASB Statements 24 and 33](#).

3.1.1.110 **Fund Financial Statements**

In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

- a. Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due.
- b. Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting.
- c. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.
- d. Transfers should be reported in the accounting period in which the interfund receivable and payable arise.

NOTE: The various fund types may be grouped in the following manner to more clearly portray their relationship to an accounting basis:

Flow of Current Financial Resources Measurement Focus Funds - use the modified accrual basis:

000	General (Current Expense) Fund
100	Special Revenue Funds
200	Debt Service Funds
300	Capital Projects Funds
700	Permanent Funds

Flow of Economic Resources Measurement Focus Funds - use full-accrual basis:

400	Enterprise Funds
500	Internal Service Funds
600-609	Investment Trust Funds
610-619	Pension (and Other Employee Benefit) Trust Funds
620-629	Private-Purpose Trust Funds
630-699	Agency Funds

3.1.1.120 BUDGETING, BUDGETARY CONTROL, AND BUDGETARY REPORTING

- a. An annual/biennial budget should be adopted by every government.
- b. The accounting system should provide the basis for appropriate budgetary control.
- c. Budgetary comparison schedules should be presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual/biennial budget. The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis.

3.1.1.130 TRANSFER, REVENUE, EXPENDITURE, AND EXPENSE ACCOUNT CLASSIFICATIONS

- a. Transfers should be classified separately from revenues and expenditures or expenses in the basic financial statements.
- b. Proceeds of general long-term debt issues should be classified separately from revenues and expenditures in the governmental fund financial statements.
- c. Governmental fund revenues should be classified by fund and source. Expenditures should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
- d. Proprietary fund revenues should be reported by major sources, and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.
- e. At a minimum, the statement of activities should present:
 - (1) Activities accounted for in governmental funds by function, to coincide with the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances.
 - (2) Activities accounted for in enterprise funds by *different identifiable activities*.

3.1.1.140 COMMON TERMINOLOGY AND CLASSIFICATION

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

3.1.1.150 ANNUAL FINANCIAL REPORTS

- a. General purpose external financial reports should be prepared and published. Governments engaged in governmental and business-type activities should include, at a minimum:
 - (1) Management's discussion and analysis (MD&A).
 - (2) Basic financial statements. The basic financial statements should include:
 - (a) Government-wide financial statements.
 - (b) Fund financial statements.
 - (c) Notes to the financial statements.
 - (3) Required supplementary information (RSI) other than MD&A.

Governments engaged only in business-type activities should present only the financial statements required for proprietary funds. They should include:

- (1) Management's discussion and analysis (MD&A)
 - (2) Proprietary fund financial statements consisting of:
 - a. Statement of net position
 - b. Statement of revenues, expenses, and changes in fund net position
 - c. Statement of cash flows
 - (3) Notes to the financial statements
 - (4) Required supplementary information (RSI) other than MD&A, if applicable.
- b. The statements and reports listed above follow national standards of financial reporting. They should not be confused with legal reporting requirements, which are prescribed by the State Auditor's Office for all local governments in Washington State. The legal requirements are consistent with these national standards, but they are not identical. Specific legal reporting requirements are contained in reporting part of this Manual.
 - c. A comprehensive annual financial report may be prepared and published, covering all activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity including introductory section, management's discussion and analysis (MD&A), basic financial statements, required supplementary information other than MD&A, combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units.
 - d. The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. The reporting entity's government-wide financial statements should display information about the reporting government as a whole distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Funds and component units that are fiduciary in nature should be reported only in the statements of fiduciary net position and changes in fiduciary net position.

- e. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions the [GASB Statement 14](#) should be applied in layers *from the bottom up*. At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.

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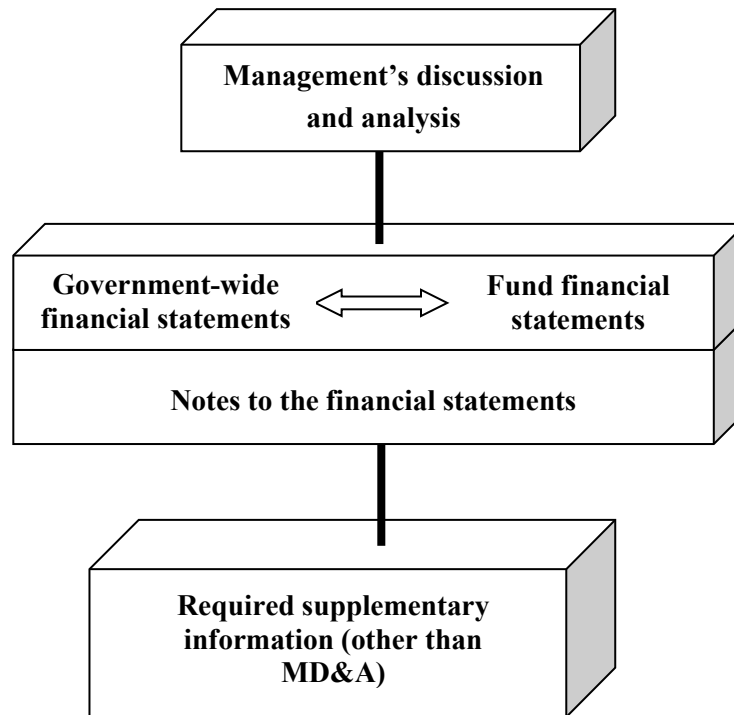
REPORTING

4.1 **Reporting Principles and Requirements**

4.1.1 **GAAP Reporting Requirements**

4.1.1.10 The requirements for financial reporting in accordance with generally accepted accounting principles (GAAP) are established by the Governmental Accounting Standards Board (GASB) in the [GASB Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.](#)

The following diagram illustrates the minimum requirements for general purpose external financial reports.



4.1.1.20 Comparative financial statements mean two complete sets of financial statements for each comparative year. Each set should contain basic financial statements (including notes) and RSI (including MD&A). Both years may be combined in one presentation; however, each element (MD&A, basic financial statements, notes and RSI) have to include information for both years.

1. Management Discussion and Analysis (MD&A)

4.1.1.30

MD&A should introduce the basic financial statements and provide an analytical overview of the local government's financial activities. It is part of the Required Supplementary Information (RSI), however it should be presented before the basic financial statements. The MD&A should provide an objective and easily readable analysis of the local government's financial activities. It should include comparisons of current year to the prior year based on the government-wide information. It also includes information regarding the local government budget variances, capital assets, long-term debt activity, and a description of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations.

2. Basic Financial Statements

Government-Wide Financial Statements

4.1.1.40

The government-wide financial statements consist of a *statement of net position* and a *statement of activities*. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Each statement distinguishes between the governmental and business-type activities of the primary government and its discretely presented component units.

Statement of Net Position

4.1.1.50

The statement of net position presents the local government as one economic unit rather than a compilation of different funds. The statement focuses on type of activities, rather than type of funds. Local governments should report all capital assets, including infrastructure assets in the government-wide statement of net position. The net position should be reported in three categories: net investment in capital assets, restricted and unrestricted.

Statement of Activities

4.1.1.60

The statement of activities is a report on the results of the local government's operations. The statement presents the cost of each function and the extent to which each of the local government's functions, programs or services either contributes to or takes away from the local government's general revenue.

The required format provides:

1. Information indicating the extent to which current-year program revenues supported the cost of the current-year services, and
2. How the local government finances its activities.

Fund Financial Statements

Governmental Fund Financial Statements

4.1.1.70

Governmental funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting. These funds are presented by general fund; major funds, and aggregated nonmajor funds.

There are two statements required - the balance sheet and the statement of revenues, expenditures and changes in fund balance. General capital assets and general long-term liabilities are not reported in the governmental fund balance sheet. (They are reported in the government-wide financial statements.)

4.1.1.80 The statement of revenues, expenditures and changes in fund balance reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate.

4.1.1.90 Each statement reports separate columns for the general fund and for other major governmental and enterprise funds. Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding element totals for all funds of that category or type and at least five percent of the corresponding element total for all governmental or enterprise funds combined. The local government may choose to report any other funds as a major fund if they believe they are important to users. The nonmajor funds are reported in aggregate in a separate column.

Proprietary Funds Financial Statements

4.1.1.100 There are three required fund financial statements for proprietary funds:

1. Statement of Net Position,
2. Statement of Revenues, Expenses and Changes in Fund Net Position, and
3. Statement of Cash Flows.

4.1.1.110 Proprietary funds continue to be presented on the economic resources measurement focus and the full accrual basis of accounting. Proprietary funds are reported the same way as in the government-wide financial statements. However, internal service funds should be reported as a fund type (aggregated) in a separate column. Major enterprise funds are reported in separate columns and nonmajor enterprise funds are aggregated in a single column.

4.1.1.120 The proprietary statement of net position presents assets and liabilities in a classified format. Restricted assets are reported separately. Net position should be reported in the following three components: net investment in capital assets, restricted and unrestricted.

4.1.1.130 The proprietary statement of revenues, expenses, and changes in fund net position reports in a specific format prescribed by the [GASB Statement 34](#). All transactions that affect net position are included. Revenues are reported by major source. Expenses are reported by either detail (object) or function level. Revenues and expenses should distinguish between operating and nonoperating.

Fiduciary Fund Financial Statements

4.1.1.140 The following are required financial statements for fiduciary funds:

1. Statement of Fiduciary Net Position, and
2. Statement of Changes in Fiduciary Net Position.

The fiduciary statements are prepared using the economic resources measurement focus and full accrual basis of accounting (with some exceptions for liabilities for defined benefit pension plans and certain postemployment health care plans).¹

- 4.1.1.150 Agency funds should be reported in the statement of fiduciary net position. Their fund assets should equal fund liabilities. Agency funds do not have operations and should not be reported in the statement of changes in fiduciary net position.
- 4.1.1.160 The statement of fiduciary net position should include information about the assets, liabilities, and net position for each fiduciary fund type and for similarly discretely presented component units of the reporting entity. The local government should provide details for all other fiduciary funds, or clearly indicate where the information is displayed.
- 4.1.1.170 The statement of changes in fiduciary net position should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each fiduciary fund type and similar discretely presented component units. It should provide information about significant year-to-year changes in net position. The local government should provide additional details about investments and provide the level of details for all other fiduciary funds or clearly indicate where the information is displayed.

3. Notes to the Financial Statements

- 4.1.1.180 Notes to the financial statements are essential to fair presentation of the basic financial statements. The notes include the summary of significant accounting policies and summary disclosure of such matters as significant contingent liabilities, encumbrances outstanding, significant effects of subsequent events, pension plans, accumulated unpaid employee benefits (such as vacation and sick leave), material violations of finance-related legal and contractual provisions, debt service requirements to maturity, commitments under noncapitalized leases, construction and other significant commitments, any excess of expenditures over appropriations in individual funds, deficit balances of individual funds, and interfund receivables and payables. Any other disclosures necessary in the circumstances should also be included.

The NCGA has discussed the notes to financial statements in more detail in its [Interpretation 6](#), which also provides guidance for presenting notes in a logical order.

4. Required Supplementary Information

- 4.1.1.190 Statements, schedules, statistical data, and other information the GASB deem necessary is reported as required supplementary information (RSI). Except for the MD&A, required supplementary information, including the budgetary comparison information, should be presented immediately following the notes to the financial statements.

¹ There are some exceptions for liabilities of defined benefit pension plan and certain postemployment health care plans. Paragraph 26 of [Statement 25](#) and paragraph 7 of [Statement 26](#) provide guidance on recognition of these liabilities.

There are four types of RSI (other than MD&A) that must be presented:

- Budgetary comparisons (for the general fund and other individual special revenue funds),¹
- Infrastructure condition and maintenance data (for local governments using the modified approach),
- Pension trend data (for certain pension plans and participating employers),
- Revenue and claims development trend data (for public-entity risk pools).

Reporting Entity

4.1.1.200 In June 1991, GASB issued the [Statement 14, *The Reporting Entity*](#), which is effective for financial statements for periods beginning after December 15, 1992. The [Statement 14](#) establishes standards for defining and reporting on the financial reporting entity and applies to financial reporting by primary governments, as well as to separately issued financial statements of governmental component units. The [Statement 14](#)² defines the financial reporting entity as consisting of (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

4.1.1.210 A primary government is financially accountable for those organizations that make up its legal entity as well as legally separate organizations if the primary government appoints a voting majority of an organization's governing body, and either it can impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

4.1.1.220 Most organizations determined to be component units under the [Statement 14](#) should be included in the financial reporting entity by discrete presentation – that is, by presentation in one or more columns separate from the financial data of the primary government. However, some component units may, in substance, be the same as the primary government and should be reported as part of the reporting entity – that is, the component unit's balances and transactions are reported in a manner similar to those of the primary government, by *blending*. It is likely that an organization considered to be a component unit under existing standards and blended will continue to be considered a component unit under the [Statement 14](#); however, according to the [Statement 14](#), that component unit will probably be reported by discrete presentation.

The following flowchart will help to determine the reporting status of an organization. Refer to the Statement's Glossary for definitions of the various terms.

¹ The governments have an option to report the budgetary information in the basic financial statements.

² As amended by the [GASB Statement 39, *Determining Whether Certain Organizations are Component Units*](#).

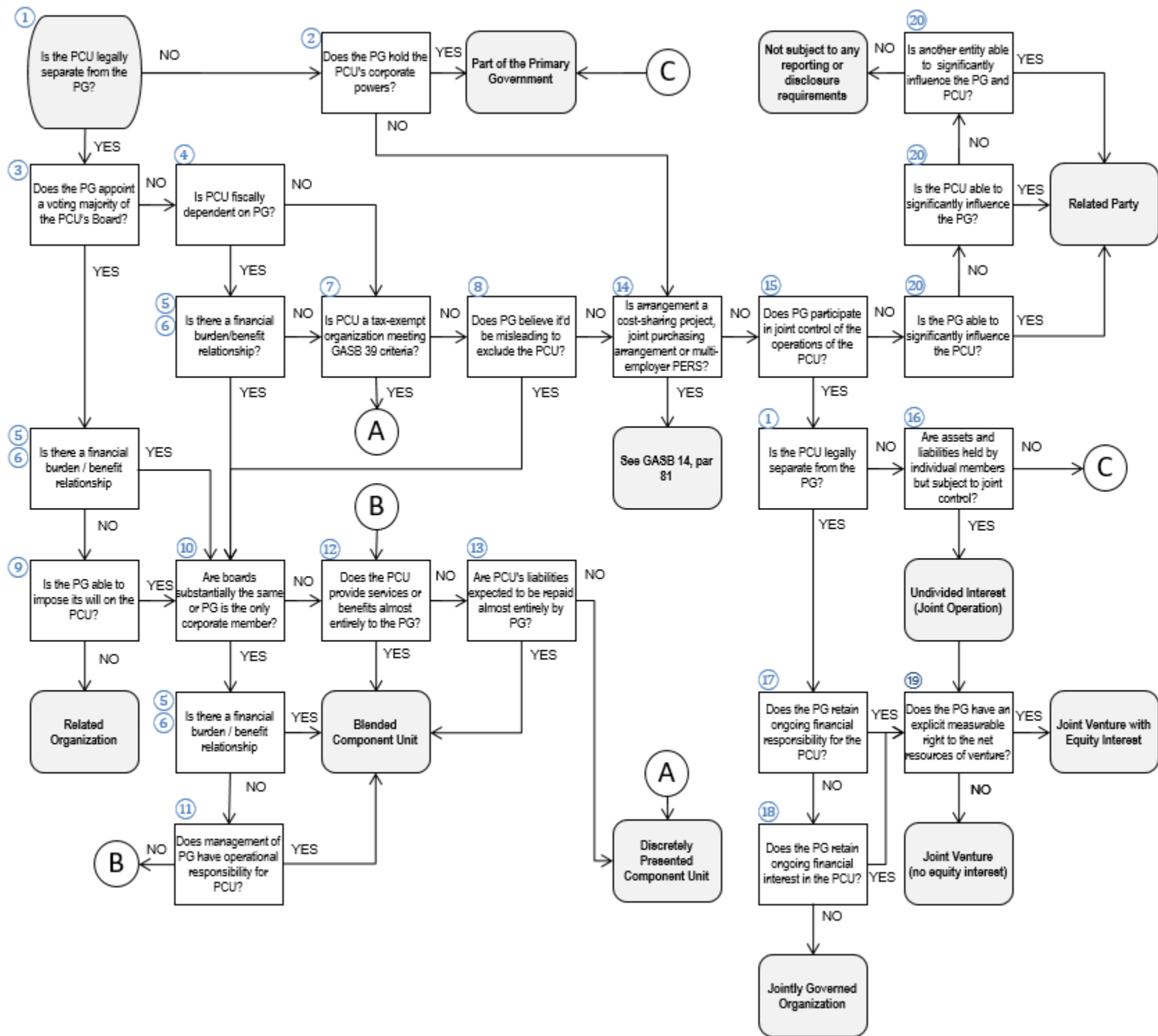
4.1.1.230

In September 2006, GASB issued the [Statement 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues](#). This Statement applies to all intra-entity transactions (sales and donations) that involve the transfer of financial assets, capital assets and future revenues.

When accounting for the transfer of capital and financial assets and future revenues within the same financial reporting entity, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. The difference between the amount paid (exclusive of amounts that may be refundable) and the carrying value of the assets transferred should be reported as a gain or loss by the transferor (revenue in governmental funds) and as a revenue or expenditure/expense by the transferee in a separately-issued statements, but reclassified as transfers in the financial statements of the reporting entity. Application of this Statement should be the same for both discretely presented and blended component units.

4.1.1.240

Hospital Districts: The *General Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards*, section Ho5.601 supersedes the June 1996 *AICPA Audit and Accounting Guide, Health Care Organizations*, to the extent of financial reporting. However, the Guide continues to provide guidance on individual transactions that are unique to healthcare organizations. The Guide is considered Category B guidance in the hierarchy of GAAP.



Notes to Financial Reporting Entity Flowchart

1. An organization has separate legal standing if it is created as a body corporate or a body corporate and politic, or if it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government.
2. Corporate powers give an organization the capacity to have a name; the right to sue and be sued in its own name without recourse to another state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name.
3. The primary government's appointment authority should be substantive and continuing. A primary government's appointment authority is not substantive if the number of candidates is limited by the nominating process or if its responsibility is limited to confirming appointments made by individuals or groups other than the primary government's officials or appointees. In the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability.
4. An organization is fiscally dependent if it cannot meet all three of the following requirements without substantive approval of a primary government:
 - a. Determine its budget,
 - b. Levy taxes or set rates or charges, and
 - c. Issue bonded debt.

It is also important to make a distinction between substantive and ministerial (compliance) approval. Ministerial approval is often a result of the general oversight of the respective state or local governments. This may include evaluation of programs, review for compliance with the statutory requirements, etc. Being subject to ministerial approval does not qualify an organization as fiscally dependent. Also, a primary government that is temporarily under the fiscal control of another government continues to be fiscally independent.

- 5/6. The benefit or burden relationship may result from legal entitlements or obligations, or it may be less formalized and exist because of a decision made by the primary government or agreements between the primary government and component unit.

An organization has a financial benefit or burden relationship with the primary government if any one of these conditions exists:

- a. The primary government is legally entitled to or can otherwise access the organization's resources.
- b. The primary government is legally obligated or has otherwise assumed the obligation to finance 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 are not considered a financial benefit or burden relationship.

The effect of the financial benefits or burdens on the primary government can be either direct or indirect. A direct effect occurs when the primary government itself is entitled to the resources or

obligated for the deficits or debits of the organization. An indirect relationship occurs when one or more of the primary government's component units is entitled to the resources and obligated for the deficits or debts of the organization. In both cases, the primary government has the benefit/burden relationship with the organization.

7. Certain organizations warrant inclusion because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax exempt organization should be reported as a discretely presented component unit if all of the following criteria are met:
 - a. The economic resources received or held by the organization are almost entirely for the direct benefit of the primary government, its component units, or its constituents.
 - b. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
 - c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.
8. Other organizations should be evaluated as potential component units if they are closely related to or financially integrated with the primary government and included as component units if the nature and significance of their relationship with the primary governments is such that exclusion from the financial reporting entity would render the financial statements incomplete or misleading. 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.
9. A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of any one of the following conditions indicates that the primary government has the ability to impose its will on an organization:
 - a. The ability to remove the appointed members of the organization's governing body at will.
 - b. The ability to modify or approve the budget of the organization.
 - c. The ability to modify or approve the rate or fee changes affective revenues, such as water usage rate increases.
 - d. The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.
 - e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

There may be other conditions indicating the possibility of imposing will. When assessing them, remember to make the distinction between substantive and ministerial approvals.

A potential component unit for which a primary government is financially accountable may be fiscally dependent on another government. An organization should be included as a component unit of only one reporting entity. Professional judgment should be used to determine the most appropriate reporting entity. A primary government that appoints a voting majority of the

governing board of a component unit of another government should make the disclosures required for related organizations.

10. A component unit should be presented as blended when the component unit's governing body is substantively the same as the governing body of the primary government **and** (1) there is a financial benefit/burden relationship between the primary government and the component unit **or** (2) management of the primary government has operational responsibility for the component unit.

Additionally, a component unit should be included using blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member ([GASB Statement 80, *Blending Requirements for Certain Component Units*](#)).

12. A component unit should be presented as blended when 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.

As prescribed in the [GASB Statement 85, *Omnibus 2017*](#), for a primary government that is a business-type activity and uses a single column for financial statement presentation of its business-type activities, a component unit may be blended only if the component unit meets a criterion for blending in paragraph 53 of the [GASB Statement 14, *The Financial Reporting Entity*](#).

The [GASB Statement 14](#) (as amended by [GASB Statements 34](#), [39](#), [61](#) and [80](#)) allows flexibility in displaying the component units' financial data. Please refer to the matrix in the Manual for a detailed listing of the possible displays for component units.

4. REPORTING

4.3 Fund Financial Statements

4.3.1 Fund Types

4.3.10 The financial statements for governmental funds should report a separate column for each individual major fund, with data from all non-major governmental funds aggregated into a single *Other Non-Major Governmental Funds* column, regardless of fund type.

There are three basic types of funds: governmental, proprietary, and fiduciary.

4.3.20 The **governmental** fund type consists of:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Permanent Funds

4.3.30 The **proprietary** fund type consists of:

1. Enterprise Funds
2. Internal Service Funds

Although, the internal service fund is classified as a proprietary fund type (and has to be reported as such in the funds financial statements), they should be included as part of the *Governmental Activities* in the government-wide financial statements unless its predominant customers are external entities or enterprise funds, then they would be reported in the *Business-Type Activities* column. For more details about the internal service funds see [Internal Service Funds](#).

4.3.40 The **fiduciary** funds are limited to account for resources that are not available to support governments' operations and programs. This fund type consists of:

1. Private-Purpose Trust Funds
2. Pension (and Other Employee Benefit) Trust Funds
3. Investment Trust Funds (required by the [GASB Statement 31](#))
4. Agency Funds (if the agency fund holds the amounts for other funds of the government, these amounts should be reported in the appropriate funds)

For detailed description of funds see [Fund Types and Accounting Principles](#).

4. REPORTING

4.3 Fund Financial Statements

4.3.5 Fiduciary Funds Financial Statements

4.3.5.10 The following are required financial statements for fiduciary funds¹:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

The fiduciary statements are to be prepared using the economic resources measurement focus and full accrual basis of accounting.²

4.3.5.20 Agency funds should be reported in the statement of net position and fund assets should equal fund liabilities. Agency funds do not have operations and should not be reported in the statement of changes in fiduciary net position.

OPEB Plans

4.3.5.30 The Governmental Accounting Standards Board (GASB) has issued [Statement 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*](#). This statement requires that local governments administering plans for other post employment benefits (OPEB) report financial information on their plan assets, liabilities, net position and changes in net position using the statement of fiduciary net position, and statement of changes in fiduciary net position. The statement also requires specific plan disclosures in the notes to the financial statements and two schedules showing the funding status and funding progress. The plan note disclosures are discussed in Notes to Financial Statements, and the required schedules are discussed in [Required Supplementary Information \(RSI\)](#).

4.3.5.40 [GASB Statement 43](#) is applicable to OPEB plans that provide healthcare benefits regardless of whether or not they are part of a pension plan. Exceptions for OPEB reporting are life insurance, disability, and long-term care type benefits. They are considered pensions when provided through a defined benefit pension plan. Entities should review the criteria listed in [GASB Statement 43](#) to determine if they have a material OPEB plan that requires reporting.

4.3.5.50 The reporting goal of [GASB Statement 43](#) is to assure that audited detail of each OPEB plan is available to the public. OPEB plan reporting can be accomplished using several methods, they are:

- Prepare a standalone financial report for OPEB plans.

This reporting method requires preparing a standalone financial report containing fiduciary fund statements, notes and RSI. The fiduciary statements in a standalone report require multi column presentation when multiple OPEB plans are maintained. Detail is required at the plan level in the statements, notes and RSI.

¹ Component units that are fiduciary in nature should be presented within the fund type columns with the fiduciary funds of the primary government. A separate column for fiduciary component units should not be presented.

² There are some exceptions for liabilities of defined benefit pension plan and certain postemployment health care plans. Paragraph 26 of [Statement 25](#) and paragraph 7 of [Statement 26](#) provide guidance on recognition of these liabilities.

- Present the OPEB plan financial report within the administrator/employer financial report.

When an audited standalone report is not publicly available, an employer participating in an OPEB plan is responsible for reporting audited plan information. Employer reporting can be satisfied by:

1. Report the OPEB plan using the OPEB trust column of the fiduciary fund statements. When a pension trust or more than one OPEB plan exists individual plan statements are required to be presented in the notes to the financial statements.
 2. Prepare note disclosure for each OPEB plan.
 3. Prepare RSI for each OPEB plan.
- Report detail of OPEB plans in a CAFR.

When multiple OPEB plans are used by an employer, the details of financial reporting can be met by presentation of the plans as individual funds in the combining statements of a CAFR. The plan notes and RSI will be presented in the statement notes and in the RSI section following the notes.

External Investment Pools

4.3.5.53

An external investment pool is defined as:

“An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants’ behalf, in an investment portfolio; one or more of the participants is not part of the sponsor’s reporting entity ([GASBS 31](#), paragraph 22).”

Governmental external investment pools are required to be reported in an investment trust fund (a fiduciary fund) that reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. If a separate financial report is issued for the pool, the financial statements of the sponsoring government should disclose how to obtain that report. If issued, the financial statements should include MD&A, basic financial statements for fiduciary activities, notes to financial statements, and other RSI as required for governments engaged only in fiduciary activities. These statements should be prepared on the economic resources measurement focus and the accrual basis of accounting.

If a separate report is not issued, the sponsoring government’s financial statements should include the disclosures required by [GASBS 31](#), as amended. Overview of those disclosures are as follows:

- A brief description of any regulatory oversight (including whether the pool is registered with the SEC as an investment company);
- Frequency of determining the fair value of investments;
- The method used to determine the participants’ share sold and redeemed and whether that method differs from the method used to report investments;
- Whether the pool sponsor has provided or obtained any legally binding guarantees during the period to support the value of shares;
- The extent of involuntary participation in the pool, if any;
- A summary of the fair value, the carrying amount (if different from the fair value, the number of shares or the principal amount, ranges of interest rates, and maturity dates of each major investment classification;

- If the financial report distinguishes between different components of investment income, the accounting policy for defining each of the components it reports (i.e. interest, dividends, and other income);
- The fair value disclosures required by [GASBS 72](#);
- And other disclosures.

In addition, the sponsoring government's financial statements should provide separate disclosures for the pool regarding cash and cash investments required by the GASBS 3, 28 and other statements. Finally, the sponsor's financial statements should disclose condensed statements of fiduciary net position and changes in fiduciary net position of the pool. If the pool includes both internal and external investors, those condensed statements should include, in total, the net position held in trust for pool participants, and the *equity of participants should distinguish between internal and external portions*. If the government sponsors more than one external investment pool, the disclosures are required for each pool separately.

Additionally qualifying external investment pools which report at amortized cost having met the requirements of the [GASBS 79](#), need to include an additional disclosure explaining any presence of any limitation or restriction on participant withdrawals (participants in these qualifying external investment pools would also disclose the presence of any limitations or restrictions on withdrawals in their financial statement note disclosures).

Individual Investment Accounts

- 4.3.5.56 An individual investment account is separately managed by a government for legally separate entities which are not component units. Specific investments are acquired for the individual separate entities, and the income from and changes in the value of those investments affect only the separate entity for which they were acquired.

The [GASB Statement 31](#) requires governments to report as separate investment trust funds the individual investments accounts. All individual investment accounts may be aggregated as a single investment trust fund and be presented as one column.

Statement of Fiduciary Net Position

- 4.3.5.60 This statement should include information about the assets, liabilities, and net position for each fiduciary fund type³ and similar discretely presented component units of the government. Since the statement of fiduciary net position is an equivalent to the statement of plan assets required by the [GASB Statement 25](#), the government should provide a sufficient level of details to meet both requirements. If not, the government should clearly indicate where else that information is displayed.

Net position should be labeled based on the purpose for which they are held in trust, such as *Held in Trust for Pension Benefits*.

³ The major fund reporting does not apply to fiduciary funds.

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 20__

	Employee Retirement Plan	Private-Purpose Trusts	Agency Funds
ASSETS			
Cash and Cash Equivalents			
Receivables:			
Interest and Dividends			
Other Receivables			
Total Receivables			
Investments, at Fair Value:			
U.S. Government Obligations			
Municipal Bonds			
Corporate Bonds			
Corporate Stocks			
Other Investments			
Total Investments			
Total Assets			
DEFERRED OUTFLOWS of RESOURCES			
LIABILITIES			
Accounts Payable			
Refunds Payable and Others			
Total Liabilities			
DEFERRED INFLOWS of RESOURCES			
NET POSITION			
Held in Trust for Pension Benefits and Other Purposes			

The notes to financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

4.3.5.70 The statement of changes in fiduciary net position should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each fiduciary fund type⁴ and similar discretely presented component units. It should provide information about significant year-to-year changes in net position. The government should provide additional details about investments and provide the level of details for all other fiduciary funds, or clearly indicate where that information is displayed.

The statement of changes in fiduciary net position is equivalent to the statement of changes in plan assets required by [GASB Statement 25](#).

⁴ The major fund reporting requirements do not apply to fiduciary funds.

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 20__

	Employee Retirement Plan	Private-Purpose Trust
ADDITIONS		
Contributions:		
Employer		
Plan Members		
Total Contributions		
Investment Earnings:		
Net (Decrease) in Fair Value of Investments		
Interest		
Dividends		
Total Investment Earnings		
Less Investment Expense		
Net Investment Earnings		
Total Additions		
DEDUCTIONS		
Benefits		
Refunds of Contributions		
Administrative Expenses		
Total Deductions		
CHANGE in NET POSITION		
Net Position-Beginning of the Year		
Net Position-End of the Year		

The notes to financial statements are an integral part of this statement.