
Chapter 15
Learning Objectives

• Explain the nature and contents of the three major sections of a CAFR
• Understand the relationships between combining financial statements and the basic financial statements
• Determine the combining statements that a government needs to present in the CAFR
Learning Objectives (continued)

• Explain how to determine if a government should treat an associated entity as a component unit (CU)
• Understand which CUs should be blended and which should be discretely presented
• Understand the differences between blending and discrete presentation
• Explain the differences between and among the reporting requirements for related organizations, jointly governed organizations, and joint ventures
CAFR Components

1. Introductory Section
2. Financial Section
3. Statistical Section (new contents under GASB #44)
Introductory Section

• Table of Contents – guide to the rest of the report
• Transmittal Letter
  – Legal requirements for the CAFR
  – Report is management’s responsibility
  – Results of the audit
  – Should *not* duplicate information in MD&A, but may refer to MD&A
• Other materials deemed appropriate
Financial Section

- Auditor’s Report
- Management’s Discussion & Analysis
- Basic Financial Statements
- Other RSI
- Combining and Individual Fund Financial Statements & Schedules (Other Information)
- Narrative explanations
Auditor’s Report

• First item in the Financial Section
• Scope is usually the Basic Financial Statements but may be of the CAFR as a whole
  – Known as a “dual opinion”
  – Would still exclude RSI and Statistical Section
Basic Financial Statements & RSI
(also known as the Minimum External Financial Report [MEFR])

• MD&A (part of RSI)
• Basic Financial Statements
  – Government-Wide Financial Statements
  – Fund Financial Statements
  – Notes to the Financial Statements
• Other RSI
Other Information

- Nonmajor combining statements for Governmental Funds and Enterprise Funds
- Combining statements for ISFs
- Combining statements for each type of Fiduciary Fund
- Individual Fund Statements, if appropriate
- Narrative explanations
Statistical Section

• First outlined in NCGA Statement 1
• New requirements courtesy of GASB #44
  – Issued in May 2004
  – Effective for FYs ending after 6/15/2006
Statistical Section: Five classes of information

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic & Economic information
- Operating Information
Financial Trend Information

• Net assets – *new*
• Changes in net assets – *new*
• Fund balances – *required instead of optional*
• Changes in fund balances (combined and expanded)—*for all governmental funds, not just general fund*
Revenue Capacity Information

- Revenue base
- Direct and overlapping rates
- Principal payers – includes comparison year
- Levies and collections – standardized format
Debt Capacity Information

- Ratios of total outstanding debt – new
- Ratios of general debt outstanding – revised
- Overlapping debt – revised
- Debt limits – 10-year trend added
- Pledged-revenue coverage – expanded
Demographic and Economic Information

- Demographic and economic indicators – some specific ones now required
- Principal employers – now required and adds comparison year
Operating Information

- Government employees
- Operating indicators – demand or level of service
- Capital asset indicators – volume, usage or nature
More Complex Entity Structures

- Component units
- Related organizations
- Jointly governed organizations
- Joint ventures
Foundation of Reporting Entity: The Primary Government

• All States, Counties and Cities are primary governments (PGs)
• Other governmental entities may be PGs if it
  – Has a separately elected governing body; **and**
  – Has separate legal standing; **and**
  – Is fiscally independent
An entity is “fiscally independent” if it does not need another government’s approval to:
• Establish its budget; or
• Levy taxes or set other rates and charges; or
• Issue bonded debt
Component Unit

• Legally separate
  – non-primary government, or
  – nonprofit organization, or
  – for-profit organization

• For which the primary government is financially accountable
“Financial accountability” determined by

- Fiscal dependency (already defined)
- Appointment plus
“Appointment”

• PG appoints (and/or has ex officio representation constituting) a voting majority of the CU’s governing body, or

• PG created and can abolish the CU
“Plus”

• PG has the ability to impose its will on the CU, or
• PG has the potential to receive specific financial benefits or incur financial burdens from the CU
Ability to impose will

- Remove appointed governing board members at will without cause, or
- Approve or require modification of its budget, or
- Approve or require modification of its rate or fee charges, or
- Veto, override, or otherwise modify governing board decisions, or
- Appoint, hire, dismiss, or reassign members of its management, or
- Significantly influence the types and levels of services provided via other powers
Potential to receive benefits or incur burdens

• PG has the ability to access other organization’s financial resources (other than at dissolution)
• PG is legally or otherwise obligated to finance the deficits of, or to provide financial assistance to, the other organization
• PG is “obligated in some manner” for the debt of the other organization
Other factors that can cause an entity to become a CU

• For-profit organization of which the PG is the majority owner
• Organization must be included to keep reporting entity financial statements from being incomplete or misleading
• Any organization for which the PG has fiduciary responsibility
Methods to report CUs

• Blending – looks like any another fund
• Discrete presentation – reported in separate column(s) in government-wide financial statements
Requirements for blended presentation

• CU’s governing body and PG’s governing body are substantially the same
• CU provides services only for the PG itself (building authority)
• CU benefits exclusively the PG (administers PG employee healthcare plans)
• CU is included because PG has a fiduciary responsibility for it (pension plan)
Reporting Discretely Presented CUs

- Found only on Government-Wide Financial Statements
  - Statement of Net Assets
  - Statement of Activities
- Four options for reporting CUs
Options for Reporting CUs

1. Single column (option most often used)
2. Separate columns for Governmental CUs and Proprietary CUs (rarely used in practice)
3. Separate column for each major CU with aggregate column for other CUs
4. Separate column for each CU
Options for Reporting CUs (continued)

• When options 1 and 2 used, must present additional information about CUs later in report

• Methods available
  – Combining statements following major fund statements – must have separate column for each major CU and aggregate column for others
  – Condensed financial statements in notes to financial statements
Other relationships

• Related organization – appointment criteria met but not the “plus”

• Jointly governed organization – has not met appointment requirement or “plus” requirements

• Joint venture – has not met appointment requirement and has either ongoing financial interest or ongoing financial responsibility
Bringing it all together: The Financial Reporting Pyramid

- CAFR--Comprehensive Annual Financial Report
- BFS--Basic Financial Statements
- MEFR--Minimum External Financial Reporting