

BASIC FINANCIAL STATEMENTS-NOTES TO FINANCIAL STATEMENTS

NOTES AMENDED BY GASB STATEMENT NO. 34

The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements. The notes should focus on the primary government—specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. Information about the government’s discrete component units should be presented as discussed in Statement 14, paragraph 63, as amended by this Statement. Guidance pertaining to existing note disclosures is found in NCGA Interpretation 6, as amended. GASB has a project on its agenda to review the appropriateness of existing note disclosure requirements.

REPORTING COMPONENT UNITS

Paragraph 42 of Statement 14 requires that “financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units.” Paragraph 11 states that “...the reporting entity’s financial statements should...provide an overview of the discretely presented component units.”

These financial reporting requirements are met by discrete presentation of component unit financial data in the statement of net position and the statement of activities. Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the primary government’s fiduciary funds. Blended component units should be reported in accordance with the respective GASB guidance.

GASB requires information about each major component unit to be provided in the basic financial statements of the reporting entity. Governments can satisfy that requirement by:

- (a) presenting each major component unit in a separate column in the reporting entity’s statements of net position and activities. (Major component unit information is not required for component units that are fiduciary in nature.)
- (b) including combining statements of major component units in the reporting entity’s basic statements after the fund financial statements. (Nonmajor component units should be aggregate in a single column. A combining statement for the nonmajor component units is not required, but may be presented as supplementary information.)
- (c) presenting condensed financial statements in the notes to the reporting entity’s financial statements. If the combining statement approach is used, the “aggregated total” component unit information, as discussed in Statement 14, should be taken from the total columns in the component unit’s statements of net position and activities so that the details support the totals reported in the reporting entity’s government-wide statement. (Because component units that are engaged only in business-type activities are not required to prepare a statement of activities, this disclosure should be taken from the information provided in the component unit’s statement of revenues, expenses, and changes in net position.)