GASB CODIFICATION · FINANCIAL REPORTING

Section 2100

Defining the Financial Reporting Entity

Where the line gets drawn around “the government” for financial statement purposes — which legally separate organizations get pulled in as component units, and on what basis. Plain-language reference only; not a substitute for the authoritative text.

GARS 2100

¶.112 – .117

What Makes a Primary Government

A state, or a general-purpose local government.
Every state government and general-purpose local government (a municipality or county) is automatically a primary government.

A special-purpose government qualifies only if it clears three tests.
It must have a separately elected governing body, be legally separate, and be fiscally independent — meaning it can set its own budget, levy its own taxes or rates, and issue its own debt without another government's substantive approval.

¶.120 – .126

When a Primary Government Is Financially Accountable

Appointing a voting majority is the first path.
That alone isn't enough — the primary government must also be able to impose its will on the organization (remove board members at will, modify its budget or rates, veto its decisions, or hire/fire its management).

A financial benefit or burden relationship is the second path.
Even without the ability to impose its will, appointing a voting majority plus a potential benefit or burden is enough.

Fiscal dependency works without any board appointment at all.
If an organization is fiscally dependent on a government and has a potential benefit or burden relationship with it, that's enough on its own — regardless of who appoints its board.

¶.127 – .133

Financial Benefit or Burden, Explained

Access to the organization's resources.
The primary government is legally entitled to, or can otherwise access, the organization's resources — the ability to access matters more than whether a transfer actually happened.

An obligation to cover deficits or provide support.
Legally obligated, or having otherwise assumed the obligation, to finance the organization's operating deficits or provide ongoing financial support.

Being on the hook for the organization's debt.
Legally obligated to assume the debt in default, or having indicated it will step in — through reserve funding requirements, contract language, or past practice.

¶.139 – .143

Judgment Calls

An organization can only belong to one reporting entity.
If it meets the criteria for more than one government, fiscal dependency on a local government generally governs over an appearing relationship with the state.

Professional judgment can still pull an organization in.
Even without meeting the financial accountability criteria, an organization should be included as a component unit if excluding it would make the reporting entity's statements misleading.

A specific three-part test applies to tax-exempt organizations.
Its resources must be almost entirely for the primary government's benefit, the primary government must be entitled to or able to access a majority of those resources, and the amount must be significant to the primary government.