

Final Blending Requirements of Certain NFP Component Units

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, requiring state or local governments to use the blending method when presenting in their financial statements component units organized as not-for-profit (NFP) corporations in which the primary government is the sole corporate member. The primary government will present activities of an acquired or created, legally separate NFP corporation similar to a department or activity of the primary government. The statement does **not** amend existing disclosure requirements.

Statement No. 80 amends the blending requirements of all state and local governments but is most applicable to those engaged in both governmental and business-type activities or only business-type activities, *e.g.*, public hospitals and institutions of higher education.

The additional criterion doesn't apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, or to equity interest in entities with less than 100 percent ownership. In addition, Statement No. 80 doesn't address fundamental reporting entity principles established in Statement 14, *The Financial Reporting Entity*, as amended. These include the criterion for inclusion of component units in the financial reporting entity or the provision that component units should be discretely presented unless the component unit meets established blending requirements, such as those included in this update.

The new requirements are effective for reporting periods beginning after June 15, 2016. Because the statement addresses diversity in practice—and because governments should have sufficient information regarding their legally separate entities—GASB encourages early application. Governmental entities would apply the provisions retroactively by restating financial statements, if practical, for all prior periods presented.

The guidance will enhance a financial statement user's ability to compare business-oriented financial reporting entities and assess a government's accountability and transparency, thus enhancing the financial statement's usefulness. BKD's previous article, "[Blending Requirements of Certain Component Units](#)," provides additional background information.

Governments are cautioned against analogizing the sole corporate member requirement to other similar situations, such as when the government has a residual interest in a legally separate NFP component unit's net assets upon dissolution. In this situation, the component unit is a Statement 39 component unit, and the blending requirements of this update would not apply.

For more information on how this change could affect your organization, contact your BKD advisor.

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