

# Governmental Accounting Standards Board (GASB) Statement No.61 Information Summary

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GASB Statement No. 14, *The Financial Reporting Entity*, was issued in 1991, to establish standards on defining and reporting of the financial reporting entity. GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments*, amended GASB Statement No. 14. GASB Statement No. 14 applies to governmental and nongovernmental entities that are included in the primary government's financial statements. It also applies to governmental joint ventures; jointly governed organizations, other stand- alone governments, and to separately issued financial statements of governments component units.

Financial reporting entity consists of:

- (a) The primary government,
- (b) Organizations for which the primary government is **financially accountable**, and
- (c) Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion from the reporting entity's financial statement will be misleading or incomplete.

A primary government is any state government or general purpose local government. It consists of all the organizations that make up its legal entity. All funds, organization, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes of a primary government.

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable *or* organization for which the nature and significance of their relationship with the primary government are such that exclusion will be misleading or incomplete.

A reporting entity should be included in the primary government's financial statements as a component unit if the primary government is **financially accountable** for that reporting entity.

## **Financial Accountability:**

- The potential component unit is fiscal dependent on the primary government, or
- The primary government has voting majority and is able to impose its will on the organization's governing body, or
- The primary government has voting majority and have financial benefit or burden relationship with the potential component unit.

*Refer to GASB Statement No. 14 for detailed information on financial accountability criteria stated above.*

A legally separate entity can also be included as a component unit if the nature and significance of the potential component unit's relationship with the primary government are such that the primary government's financial statements will be misleading or incomplete without it.

Component units that have a close relationship with the primary government should be reported in the primary government's financial statements using blended method; otherwise, the component units should be reported using discrete method.

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In November 2010, Governmental Accounting Standards Board amended GASB Statement No.14 and No. 34 through issuance of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (GASB Statement No. 61), effective for period beginning after June 15, 2012. GASB Statement No. 61 modifies the requirements for inclusion of component units in the governments' financial reporting.

GASB Statement No. 61 applies to financial entities as stated in GASB Statement No. 14. GASB statement No. 61 retains most of the initial guidance provided in Statement No. 14, but also provides clarification and modifications to some guidance present in Statement No. 14.

## **Amendments to the “Misleading to Exclude” Criteria**

Statement No. 14 allowed a legally separate entity to be included as a component unit of the reporting governments financial reporting even if they did not met the financially accountable criteria, however, excluding them from reporting would make the primary governments financial statements “misleading or incomplete.”

Statement No. 61 eliminates the guidance provided for “incomplete” and requires that the management should exercise professional judgment when determining to include a legally separate entity as a component unit that does not meet the financially accountable criteria.

## **Amendments to Inclusion under the Financial Accountability Concept**

Statement No. 14 required that a legally separate entity to be included as a component unit of the primary government if the legally separate entity was fiscally dependent on the primary government.

Statement No. 61 amends the fiscal dependency criteria to **also** include financial benefit or burden relationship that must exist between the legal separate entity and the primary government, for the legal separate entity to be included as a component unit when using the fiscal dependency criteria.

## **Amendments to Criteria for Blending Component Units**

Statement No. 14 required that a component unit should be reported using the blending method if the component unit's governing body is substantively the same as the governing body of the primary government, *or* the component unit provides services entirely, *or* almost entirely, to the primary government, *or* almost exclusively, benefits the primary government even though it does not provide services directly to it.

Statement No. 61 includes additional provision to GASB Statement No .14 to amend and clarify the requirements to report a component unit in the primary government's financial statements when using blended method the criteria of “substantively the same as the governing body of the primary government” to **also** include financial benefit *or* burden relationship between the primary government and the component unit *or* that the management of the primary government has operational responsibility for the component unit (persons responsible for the day-to-day operations of the primary government).

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## **New Requirements for Reporting using Blending Method**

Statement No. 61 issued a *new* criterion for blending which requires that a component unit should be reported using blending method if the component unit's total outstanding debt, including leases, is expected to be repaid entirely *or* almost entirely with resources of the primary government. Repayments generally occur through a continuing pledge and appropriation by the primary government to the component unit, in turn, pledges those appropriation payments as the primary source of repayment of its debt.

## **Amendments to the Requirements for Reporting the Funds of a Blended Component Unit**

Statement No. 61 clarifies that fund of a blended component unit to have the same reporting requirements as a fund of the primary government.

## **Amendments to the Requirements for Reporting Equity Interests in Component Units**

Statement No. 61 clarifies that the primary government should report an asset for its equity interest in a discretely presented component unit if the intent of the primary government is to directly enhance its ability to provide governmental services. However, if the primary government's intent is to earn income or profit, the equity interest should be reported as an investment.

For definitions please refer to the glossary list.

All State agencies/departments must complete the Component Unit checklist for all existing component units, even if there were no changes to those component units based on GAS No. 61 by September 2nd, 20XX.

For assistance, please call State Government Reporting Policy unit at 916-445-5930 or email at [darstatepolicy@sco.ca.gov](mailto:darstatepolicy@sco.ca.gov) for further clarification and additional guidance.