



State of Louisiana
Division of Administration
Office of Statewide Reporting and Accounting Policy

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OSRAP MEMORANDUM 13-25

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of GASB Statement No. 61

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 (GASB 61), *"The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and 34."* This pronouncement revises the requirements for determining if a component unit is included in the financial reporting entity of its primary government. GASB 61 is effective for periods beginning after June 15, 2012 (State fiscal year 2013). This memorandum summarizes GASB 61 under the following headings:

Financial Benefit/Burden Relationship

Organizations that were previously included as component units by meeting the **"fiscal dependency"** criteria are now also required to have **"a financial benefit/burden relationship"** with the primary government for it to be included in the reporting entity as a component unit. Formerly, GASB 14 required inclusion if a potential component unit (PCU) was fiscally dependant on the primary government. Under GASB 14, the PCU is fiscally dependent if the primary government has authority over the PCU's budget; setting of taxes, rates, or charges; or issuance of bonded debt. GASB 61 adds that the financial benefit/ burden relationship must also exist between the reporting entity and PCU before the PCU is included as a component unit of the reporting entity. The financial benefit/burden relationship, which was not amended by GASB 61, is defined in GASB 14 as existing if any one of the following conditions are present:

- a. The primary government is legally entitled to or can otherwise access the organization's resources.
- b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c. The primary government is obligated in some manner for the debt of the organization.

Substantively the Same Governing Body

Component units that are currently blended based on the “**substantively the same governing body**” criterion now additionally require that either the same “**financial benefit/burden**” relationship discussed above exists or that the primary government manages the component unit in essentially the same manner in which it manages its own programs, departments, or agencies.

Discrete Component Units

GASB 61 added the following additional circumstance for blending a component unit with its primary government. If a component unit’s total outstanding debt, including leases, is expected to be repaid entirely or almost entirely with the resources of its primary government then that component unit should be blended with its primary government. Repayment would generally be through a continuing pledge and appropriation by the primary government to the component unit. The component unit would in turn pledge those appropriation payments as the primary source of repayment for its debt.

Misleading to Exclude

GASB 61 amends and clarifies when a potential component unit should be included in the primary government’s reporting entity because it is misleading to exclude. GASB 61 places emphasis on consideration, rather than the required inclusion if the PCU is closely related to, or financially integrated with, the primary government. Prior to GASB 61 the financial reporting entity included, “...other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete” (GASB 14, ¶12). GASB 61 amended that language to be, “**In addition, the primary government may determine, through exercise of management’s professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading.**” Additionally, the following sentence from Paragraph 41 of GASB 14 was amended by adding the words in bold. “In addition, other organizations should be evaluated as potential component units if they are closely related to, **or financially integrated** with the primary government.”

Determining and Reporting Major Component Units

GASB 14 previously required that, “In determining which component units are “major,” consideration should be given to each component unit’s significance relative to the other component units and the nature and significance of its relationship to the primary government” (GASB 14, ¶51). The requirement to consider component units significance in relation to other component units has been removed by GASB 61. GASB 61 amended the above language to, “**the determination that a component unit is “major” should be based on the nature and significance of its relationship to the primary government.**” Additionally, GASB 61 provides factors to be considered in determining if a component unit is “major” as follows:

- a. The services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users.
- b. There are significant transactions with the primary government.
- c. There is a significant financial benefit or burden relationship with the primary government.

GASB 61 also provides the following methods, any one of which can be used to satisfy the reporting requirements for “major” component units:

1. Presenting each major component unit in a separate column in the reporting entity’s statement of net assets and activities.
2. Including combining statements of major component units in the reporting entity’s basic financial statements after the fund financial statements.
3. Presenting condensed financial statements in the notes to the reporting entity’s financial statements. Nonmajor component units should be aggregated in a single column. A combining statement for the nonmajor component units is not required but may be presented as supplementary information.

Other Amendments and Clarifications

GASB 61 amends paragraph 54 of Statement 14 to clarify that the funds of a component unit that are blended are subject to the same financial reporting requirements as the primary government’s own funds. Additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity (BTA) that uses a single column presentation for financial reporting. Per GASB 61, paragraph 9(a), “A component unit may be blended by consolidating its financial statement data within the single column of the primary government and present condensed combining information in the notes to the financial statements.” Additional guidance on how to report these component units will be provided in the applicable Annual Fiscal Report packets.

GASB 61 clarifies the reporting interests in legally separate organizations and requires a primary government to report its equity interest in a component unit as an asset in accrual basis financial statements.

This statement also adds that the note disclosures should include a discussion of the rationale for including each component unit and the manner in which it is presented (discretely presented, blended, or included in the fiduciary fund financial statements).

If you have any questions concerning GASB 61, contact Mark Rhodes at (225) 342-0711 or at Mark.Rhodes@la.gov.