



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Statement Concludes Review of Standards Defining the Financial Reporting Entity

The Governmental Accounting Standards Board (GASB) on December 17 issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amends its accounting and financial reporting standards for including, presenting, and disclosing information about governmental component units, including equity interests. It is designed to result in governmental financial statements that include all appropriate entities that a government is accountable for or financially intertwined with. The Statement amends GASB Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to address financial reporting entity issues that have come to light since the issuance of those Statements in the 1990s.

The genesis of this Statement was the reexamination of Statement 14. A key way the GASB works to maintain high-quality accounting and financial reporting standards is to reexamine its existing standards to see if modifications could improve their effectiveness. Reexamination takes into account such things as what has been learned about how the standards function in practice, changes in the governmental environment—including the emergence of new transactions and arrangements—and the impact of new GASB standards and Concepts Statements.

What Does Statement 14 Do?

Statement 14 primarily defines the scope of a government’s activities that are covered in its external financial statements. In particular, it provides guidance that a government uses to determine what legally separate entities—called *component units*—should be included in its financial statements. Examples of component units are public benefit corporations or public authorities, such as port authorities, economic development corporations, mass transit systems, public colleges and universities, and financing entities that issue debt for capital projects.

Statement 14 sets out criteria that identify connections between a government and such legally separate entities. Those criteria establish when a government’s financial report would not fully communicate the government’s financial activity without including those separate entities. Specifically, component units are entities for which the elected officials of a government are financially accountable and organizations whose exclusion would cause a government’s financial statements to be misleading.

GASB research indicated that Statement 14 is working effectively to support public accountability and provide decision-useful information; however, technical issues that have arisen since its issuance were noted. The Board determined that those issues warranted the GASB's attention.

What Does Statement 61 Establish?

Statement 61 is intended to improve the existing standards for defining and presenting the financial reporting entity by guiding governments to:

- Include the organizations that should be included
- Exclude the organizations that should not be included
- Display and disclose financial information about component units in the most appropriate and useful manner.

The Statement's most significant effects include increasing the emphasis on financial relationships between a primary government and component units. This raises the bar for including a separate entity as a component unit in certain circumstances, and it therefore may result in the exclusion of some entities that previously were included in the financial reporting entity.

Statement 61 also refocuses and clarifies the requirements for how certain component units are presented in the financial statements. Components units generally are displayed *discretely* on a government's financial statements—meaning, they are shown in a column or columns separate from the *primary* government's activities. However, some component units are so intertwined with the primary government that they are blended (aggregated) within the same columns as the primary government. Finally, the Statement expands upon how ownership interest in a component unit should be reported.

How Does the Statement Change Which Component Units Should Be Included?

Statement 14 requires the inclusion of component units that are fiscally dependent on a primary government. Fiscally dependent, in this sense, means that the primary government either has authority over the component unit's budget, the setting of its taxes and charges, or its issuance of debt. Under Statement 14, if a separate entity is not fiscally dependent on the primary government for any of those three things, it is considered independent, and would not be included as a component unit based on this criterion.

Statement 61 modifies requirements for including component units based on fiscal dependency. Under the Statement, fiscal dependence is no longer a sufficient reason for inclusion; a financial benefit or burden relationship also must be present between the primary government and that organization. For example, if a county is only required to approve the issuance of revenue bonds for a water district but the water

district does not receive a subsidy from the county, nor does it provide resources to the county, then the water district would not be considered a component unit of the county.

Statement 14 requires inclusion of separate entities if their exclusion would render a government's financial statements "misleading." Statement 61 emphasizes that the determination should normally be based on financial relationships between the two, such as a significant financial benefit or burden relationship with the primary government that is not simply a temporary arrangement.

What Does the Statement Say about Blending?

One reason that Statement 14 requires component units to be blended in the financial statements of the primary government is if both have "substantively the same governing body"—in other words, that the government has sufficient representation on the component unit's board to effect complete control over it. Statement 61 additionally requires that the primary government and the component unit also have a financial benefit or burden relationship, or that management below the level of the elected officials of the primary government have operational responsibility for the activities of the component unit (in other words, it manages the component unit as if it were just one of the primary government's departments or programs). Statement 61 also sets out new criteria requiring blending of component units if their debt is expected to be repaid entirely or almost entirely with the resources of the primary government.

What Does the Statement Say about Equity Interests?

The Statement also clarifies the reporting of equity interests in legally separate organizations. Specifically, it requires a primary government to report its equity interest in a component unit as an asset, rather than as an outflow of resources, when the component unit is discretely presented. In addition, it extends equity interest guidance beyond stock to also address other forms of ownership, such as partnerships. This change harmonizes reporting requirements for component units, joint ventures, and organizations with similar characteristics.

What Note Disclosures Are Required?

Research conducted into how Statement 14 was working in practice found that some governments were not providing enough meaningful information about their component units in the notes to the financial statements. For instance, a disclosure might have indicated what component units a government was including, but did not provide the reasoning behind the inclusion of each one individually.

Statement 61 clarifies that current note disclosures require governments to explain the rationale for including each component unit, and whether it is discretely presented, blended, or included as a fiduciary fund. It does not call for any new note disclosures, however.

When Does the Statement Take Effect?

Governments are required to implement Statement 61 for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

- Order [Statement 61](#)
- Read the [news release](#)
- Read more about the [Statement 14 reexamination](#)