

Attachments HE-6 & HE-10 – TAB 7 Part 21: GASBS No. 61, *The Financial Reporting Entity: Omnibus*

Overview

GASBS No. 61, *The Financial Reporting Entity: Omnibus*, provides amendments to GASBS No. 14 and GASBS No. 34. A summary of some of the amendments follow; however, this is not a complete listing and is not authoritative. Refer to GASBS No. 14 as amended by GASBS No. 39 and GASBS No. 61 for detailed guidance.

- Amendments and clarification for the inclusion of a legally separate entity to be included as a component unit (CU) are as follows: 1) Fiscal dependency* on the primary government (PG) alone is no longer a requirement for inclusion. There must be a fiscal dependency on the PG as well as a financial benefit or burden relationship with the PG; and 2) The "misleading to exclude" criteria has been clarified;
- Amendments to the determination of major component units;
- Revisions and additional criteria for including a component unit in the PG's financial statements using the blending method (blended CUs);
- Amendments to the reporting of blended CUs if the PG is a business-type activity that reports in a single column (condensed combining information must be included in the notes to the financial statements);
- Amendments to the notes to disclose the rationale for including each CU and how it is included in the f/s (i.e., blended, discrete, fiduciary funds);
- Amendments for reporting of equity interests in legally separate organizations; and
- Restricted nonexpendable net position – amended definition: Net position required to be retained in perpetuity or that represent minority interests in component units.

Note *: GASBS No. 61 did not change the definition of fiscal dependency. The potential component unit (PCU) is fiscally dependent on the PG if any of the following conditions exist: 1) PG has authority to approve and modify the PCU's budget; 2) PCU cannot levy taxes or set rates or charges without the PG's approval; and 3) The PCU cannot issue bonded debt without the PG's approval. Refer to GASBS No. 14 paragraphs 16 to 18 for additional information.

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Component unit criteria

If a legally separate organization meets any of the criteria below, it must be reported as a component unit by the primary government in accordance with GASBS No. 14 as amended by GASBS No. 39 and GASBS No. 61.

#	Component Unit Criteria
1	PG appoints voting majority of the organization’s governing body and 1) the PG is able to impose its will on the organization or 2) there is a financial benefit or burden relationship with the PG.
2	The organization is fiscally dependent on the PG <u>and</u> there is a financial benefit or burden relationship with the PG.
3	If an organization does not meet condition 1 or 2 above, it is a matter of professional judgment to determine whether the nature and significance of a PCU’s relationship with the PG is such that inclusion is needed to prevent the financial reporting entity’s financial statements from being misleading. In addition, the organizations that would be evaluated as PCUs would be closely related to or financially integrated with the PG. Note: The focus of this evaluation is generally on financial relationships.
4	A legally separate tax exempt organization that meets all of the following criteria: 1) The economic resources received or held by the organization are entirely or almost entirely for the benefit of the PG, its component units, or its constituents. 2) The PG, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization; and 3) These economic resources are significant to the PG.
5	PG owns a majority of the equity interest in a legally separate organization (for example, through acquisition of its voting stock) and the PG’s intent for owning a majority equity interest is to directly enhance its ability to provide governmental services.

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Component unit - blended presentation criteria

If a component unit (CU) meets any of the following conditions, it must be included in the primary government’s financial statements in a blended presentation (i.e., reporting component unit financial data as part of the PG) rather than discrete presentation (i.e., reporting component unit financial data in a column separate from the financial data of the PG). The chart below shows the criteria for blending. See the next section for the **exception** to the blended presentation criteria.

#	Blended Presentation Criteria
1	CU’s governing body is substantively the same as the governing body of the PG and 1) There is also a financial benefit or burden relationship with the PG, or 2) Management of the PG has operational responsibility for the CU.
2	CU provides services entirely, or almost entirely, to the PG or otherwise exclusively, or almost exclusively, benefits the PG even though it does not provide services directly to it.
3	CU’s total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the PG.

The Attachment HE-6, GASBS No. 14 Checklist Modified to Reflect GASBS Nos. 39 & 61, includes a Part 1, Checklist, that can be completed to evaluate PCUs to determine if they should be reported as a component unit and to determine if a CU meets the blended or discrete presentation criteria.

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Exception to blended presentation criteria

If a legally separate tax exempt organization is reported as a component unit only because it meets all of the following criteria, it should be presented discretely: 1) The economic resources received or held by the organization are entirely or almost entirely for the benefit of the PG, its component units, or its constituents; 2) The PG, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization; and 3) These economic resources are significant to the PG.

Equity interest in a joint venture

GASBS No. 14 paragraphs 69 to 76 provide reporting guidance for joint ventures*. GASBS No. 61 paragraph 10 replaces the term “investment” with “equity interest*.”

Note*: GASBS No. 14 paragraph 69 defines a **joint venture** as a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. GASBS No. 14 paragraph 72 defines **equity interest** as a financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating government.

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Equity interest in a component unit

GASBS No. 61 includes amendments regarding how the primary government (PG) is to report the equity interests in the PG's component unit(s). For example, a legally separate organization in which the PG owns a majority of the equity interest in order to directly enhance its ability to provide governmental services would be reported as a component unit of the PG and the PG's equity interest in the CU would be reported by the PG as follows:

- **If the component unit is discretely presented:** The equity interest should be reported as an asset of the fund that has the equity interest. Changes in equity interest should be reported in accordance with GASBS No. 14 paragraphs 73 & 74. (Note: GASBS No. 61 Appendix B paragraph 61 states that if an optional total column for the reporting entity is presented, the equity interest would be eliminated and only the discretely presented component unit's financial statement information would remain.)
 - **If the component unit is blended:** In the year of acquisition, the purchase would be reported as an outflow (i.e. expense/expenditure) of the fund that provided the resources for the acquisition. In addition, in the year of acquisition and subsequent years, the blended component unit would be reported in accordance with the blending requirements.
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Equity interest in a component unit with joint venture characteristics

Equity Interest in the Majority Participant Primary Government's Component Unit: GASBS No. 61 includes amendments regarding how the primary government (PG) is to report the equity interests in the PG's component unit that has joint venture characteristics. A primary government may be a participant of an organization with joint venture characteristics in that the organization may have several participants; however, one participating government (majority participant) appoints a voting majority of the organization's governing body (therefore, there is no joint control and it does not meet the definition of a joint venture). If the primary government is the majority participant and the organization meets the criteria to be reported as a component unit of the majority participant primary government, any equity interests that the majority participant primary government has in the component unit should be reported in accordance with the requirements described in the previous section.

Reporting of Other Governmental Participants (Minority Participants) Equity Interests in the Majority Participant Primary Government's Component Unit: GASBS No. 61 requires that when the organization is included as a component unit of the majority participant's financial reporting entity, any equity interests of the other governmental participants (minority participants) should be reported in the **restricted net position-nonexpendable category**. In addition, GASBS No. 34 is amended to define nonexpendable net position as those required to be retained in perpetuity or that represent minority interests in component units. (Note: The other governmental participants (minority participants) should report their participation in the organization in accordance with the requirements of GASBS No. 14 paragraphs 73 to 77.)

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**Attachment
HE-10
TAB 7 –
Part 21a**

TAB 7 Part 21a, Majority Equity Interest in a Legally Separate Organization, is to determine if the HEI owns a majority of the equity interest (for example, through acquisition of its voting stock) in a legally separate organization (i.e., for-profit corporation, partnership, etc.) for investment purposes or to directly enhance the ability to provide services.

**Attachment
HE-10
TAB 7 –
Parts 21b-21g**

TAB 7 Parts 21b to 21g, Organizations with Joint Venture Characteristics: This part includes questions to indicate whether the HEI participates in an organization with joint venture characteristics. This type of organization would meet the definition of a joint venture except the participants do not have joint control of the organization because one participant (majority participant) appoints a voting majority of the organization's governing body. It also includes questions regarding the reporting of the equity interests on the financial statement template.

**Attachment
HE-10
TAB 7 –
Parts 21h-21j**

TAB 7 Parts 21h to 21j, Joint Ventures, includes questions to indicate whether the HEI participates in a joint venture.

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