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## GASB 61 and Its Impact on Your Financial Statements

Government-run health care organizations have a new auditing standard to contend with for their current financial reporting period: Governmental Accounting Standards Board (GASB) Statement No. 61. Its full title (The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34) hints at improvements to existing standards that will help organizations with their reporting. As always, being ready well in advance will mean fewer surprises (and headaches) as your organization's reporting deadline nears.

The first thing to know is that GASB 61 is effective for periods beginning after June 15, 2012. Its provisions, among others, amend criteria for including organizations as component units, revise and clarify criteria for blending component units (reporting them as if they were part of the primary government), and provide guidance for instances in which the primary government has an equity interest in a component unit.

Implementation of GASB 61 may result in changes in reporting for your organization

as it considers the amended criteria. Let's take a closer look at a few of the provisions of GASB 61 that apply to health care organizations.

### Considerations for Inclusion as a Component Unit

GASB 61 adds to the rule of fiscal dependency a criterion that a financial benefit or burden relationship must exist between the primary government and a potential component unit for the component unit to be included. This represents a change from how primary governments used to determine whether to include a legally separate organization as a component unit. In the past the organization's fiscal dependency on the primary government alone would have triggered inclusion as a component unit.

The implementation of GASB 61 may cause some changes in reporting for governmental health care organizations that have included other organizations as component units (either by blending or discrete presentation) in the past based solely on the fiscal dependency criterion.

### Criteria for Blending Component Units

#### "Substantively the Same" Governing Body Criterion

One circumstance requiring a component unit of a governmental health care

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organization to be blended with the primary government (rather than discretely presented) is when the primary government and component unit have “substantively the same” governing body. GASB 61 expands this criterion by requiring that either a financial burden or benefit relationship exists between the primary government and the component unit or management of the primary government has operational responsibility for the component unit. Unless one of these additional criteria is met, the component unit would be discretely presented.

Previous guidance indicated that “substantively the same” indicated enough representation to allow complete control of the component unit’s activities. Some preparers erroneously analogized that to control occurring through other means and used that as a basis for determining blended component units. GASB 61 clarifies the GASB’s intent by removing the control concept and stating that “substantively the same” indicates sufficient representation to preclude the component unit’s ability to override decisions of the primary government. Organizations that have used the “control” criterion in the past will need to reassess their position.

#### **Debt Criterion**

Adding a criterion that wasn’t present in previous standards, GASB 61 requires a component unit to be blended into the primary government’s financial statements if the component unit’s total outstanding debt (including leases) is expected to be either completely or substantially repaid with the primary government’s resources.

#### **“Exclusive Benefit” Criterion**

In the past, governmental health care organizations were required to use a blended presentation for certain component units based on GASB 14’s “exclusive benefit” criterion. It states that blending is appropriate if the component unit provides services entirely or almost entirely to the primary government or exclusively benefits the primary government.

This criterion remains unchanged in GASB 61. For a component unit to qualify for blending under this criterion, the services must be provided to the government itself, in a manner similar to an internal service fund, rather than to the citizenry. The standard’s Basis for Conclusions clarifies the GASB’s intention and helps address confusion in past practice in which governmental health care organizations used this criterion to blend component units that provided services entirely or almost entirely to parties external to the government. With the GASB’s clarifications, a component unit that performs services to external parties (such as patients) may not meet the criterion.

This could impact how governmental health care organizations report certain component units. Some may need to change the reporting to present them as discretely presented component units instead of the blended presentation displayed in the past, if they don’t meet any of the other blending criteria. This could have a significant impact on an organization’s basic financial statements.

For example, prior to GASB 61, if a governmental health care system had



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been developed through the acquisition of not-for-profit facilities and the majority of the core operations of the health system were conducted by corporations controlled by the primary government, these corporations may have been blended so that the entire operation was presented in a single column, similar to how a private financial reporting entity may show consolidated results.

No longer. Now, under GASB 61, a majority of the health system's operations may need to be shifted out of the primary government statements and into a discretely presented component unit column if there's no financial burden or benefit relationship or if the governmental health care organization won't be repaying either all or most of the component unit's total outstanding debt.

### Reporting Discretely Presented Component Units and Related Disclosures

Discretely presented component unit data should be presented in a column or columns on the face of the financial statements, separate from the financial data of the primary government. Therefore, those governmental health care organizations that may need to change presentation of component units will need to consider the GASB's major component unit disclosures in GASB 14 and 34, as amended by GASB 61. If significant operations are shifted to the component unit column or columns, it may also be beneficial to consider reporting an optional "total entity" column to provide financial statement users with a more complete picture of total operations.

GASB 61 also imposes new requirements related to reporting equity interests in legally separate discretely presented component units: The equity interest must be displayed as an asset within the reporting government's balance sheet as an "investment in" the for-profit entity. This is a significant change for those governmental health care organizations that previously recorded such acquisitions as an expense in their financial statements.

Information or amounts previously included in the notes related to a given entity will also need to be reviewed and evaluated for changes. GASB 61 clarifies that the notes to the primary government's financial statements need to include a brief description of each component unit and its relationship to the primary government, an indication of the reasons for including

each component unit, and how it's included in the financial statements (such as by blending or discrete presentation).

Other note changes may be necessary to include disclosures about discretely presented component units that are deemed "essential to fair presentation" based on the preparer's professional judgment. Note disclosures should distinguish between information about the primary government and information presented for discretely presented component units.

Additionally, if the component units don't issue separate financial statements, that must also be taken into consideration.

For instance, governmental health care organizations with municipal bonds outstanding should evaluate disclosures that may no longer be required. However, note that information that was previously provided to bondholders may still be relevant to that audience even if it's no longer required.

### We're Here to Help

Moss Adams LLP will continue to keep you apprised of any significant new developments relating to the implementation of the new standard. In the meantime, if you have questions about how this could impact your organization, please contact your Moss Adams professional.