

OFFICE OF THE STATE AUDITOR
 COMPONENT UNIT DETERMINATION WORKSHEET
 USING GASBS 14 AND 61

APPLICABILITY – FOR USE WHEN THE PRIMARY GOVERNMENT DOES NOT APPOINT A MAJORITY OF THE BOARD MEMBERS OF THE POTENTIAL COMPONENT UNIT

To determine whether an entity is a component unit, answer each question in relation to the potential component unit and its potential primary government. Follow the instructions that appear after each question.

		Answer to Question		Component Unit Determination		
		Yes	No	Maybe	Yes	No
1.	<p>Is the potential component unit a legally separate entity from the primary government per GASB 14 ¶ 15? “An organization has a separate legal standing if it is created as a body corporate or a body corporate and politic, or if it otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government. Generally, corporate powers give an organization the capacity to have a name; the right to sue and be sued in its own name without recourse to a state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name. The corporate powers granted to a separate organization are enumerated in its corporate charter or the legislation authorizing its creation.” (GASB 14 pg 7)</p> <p>If the answer to this question is “no” then mark “no” in the Answer column and mark “no” in the Component Unit Determination column. You are finished with this worksheet. If the primary government holds the corporate powers of the organization, then the organization is part of the primary government.</p> <p>If the answer to this question is “yes” then mark “yes” in the Answer column and mark “Maybe” in the Component Unit Determination column and proceed to question 2 below.</p>					
2.	<p>Does the primary government appoint a voting majority of the potential component unit’s board per GASB 14 ¶ 22 to ¶26? “If a primary government appoints a simple majority of the organization’s governing board, it usually has a voting majority. However, if financial decisions require the approval of more than a simple majority, the primary government is not accountable for the organization. For purposes of determining whether accountability exists, a primary government’s appointment authority should be substantive. In some cases the appointment authority of a primary government’s officials may be limited by a nomination process. For example, state statutes or local ordinances may require a primary government to select its appointees from a slate of candidates provided by one or more individuals or groups other than the primary government’s officials or appointees. A primary government’s appointment authority is not substantive if the number of candidates is severely limited by the nominating process, for example, if a primary government must select three appointees from a single slate of five candidates. Additionally, a primary government’s appointment authority may not be substantive if its responsibility is limited to confirming appointments made by individual or groups other than the primary government’s officials or appointees.” (GASB 14 ¶ 22 to ¶ 23, pg 9) “In the absence of continuing appointment authority, the ability of the primary government to unilaterally abolish an organization also provides the basis for ongoing accountability.” (GASB 14 ¶ 24, pg 9)</p> <p>If the answer to this question is “no” then mark “no” in the Answer column and “Maybe” in the Component Unit Determination column and proceed to question 3 below, regarding whether the potential component unit is fiscally dependent on the primary government.</p>					

		Answer to Question		Component Unit Determination		
		Yes	No	Maybe	Yes	No
	<p>If the answer to this question is “yes” then mark “yes” in the Answer column and mark “Maybe” in the Component Unit Determination column. You are finished with this worksheet. Use the other component unit determination worksheet titled “APPLICABILITY - FOR USE WHEN THE PRIMARY GOVERNMENT APPOINTS A MAJORITY OF THE BOARD MEMBERS OF THE POTENTIAL COMPONENT UNIT” to continue the determination process.</p>					
3.	<p>Is the potential component unit fiscally dependent on the primary government? In other words, does the potential component unit have the authority to perform all three essential fiscal events (a) (b) and (c) below, without the substantive approval by the primary government? (GASB 14 ¶ 16 - ¶ 18.</p> <p>The primary government may be financially accountable if an organization is fiscally dependent (paragraph 16-18) on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.” (GASB 14 ¶ 21b, page 8) “A special-purpose government is fiscally independent if it has the ability to complete certain essential fiscal events without substantive approval by a primary government. “A special-purpose government is fiscally independent if it has the authority to do all three of the following:</p> <p>(a) Determine its budget without another government’s having the authority to approve and modify that budget. (b) Levy taxes or set rates or charges without approval by another government. (c) Issue bonded debt without approval by another government.” (GASB 14 ¶ 16, pg 7)</p> <p>If the answer to this question is “no” then mark “no” in the Answer column and mark “Maybe” in the Component Unit Determination column and proceed to question 5 below regarding whether it would be misleading to exclude the potential component unit from the primary government’s financial statements.</p> <p>If the answer to this question is “yes” then mark “yes” in the Answer column and mark “Maybe” in the Component Unit Determination column and proceed to question 4 below regarding whether there is a financial benefit or financial burden relationship between the potential component unit and the primary government.</p>					
4.	<p>Is there a potential for the possible component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government? The answer is “yes” if the any one of the following conditions described at (a), (b) or (c) exists.</p> <p>(a) The primary government is (directly or indirectly) legally entitled to or can otherwise access the organization’s resources. (GASB 14 ¶ 29, pg 10)</p> <p>“A residual interest in the net assets of an organization in the event of dissolution is not equivalent to being entitled to its resources.” (GASB 14 ¶ 29, pg 10) “Some organizations may operate activities, such as off-track betting or lotteries, for the principal purpose of generating net revenues that are accessible to the primary government. These organizations provide financial benefits to the primary government. Other organizations may operate activities (for example, public utilities) for the purpose of providing basic public services and</p>					

		Answer to Question		Component Unit Determination		
		Yes	No	Maybe	Yes	No
	<p>charge rates sufficiently high to also provide a financial benefit to the primary government. These benefits may be characterized as “payments in lieu of taxes” or “contributions” or they may simply be amounts remitted on request of the primary government. These organizations also provide financial benefits to the primary government.” (GASB 14 ¶ 30, pgs 10-11)</p> <p>(b) The primary government is (directly or indirectly) legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.</p> <p>“A primary government may be obligated to finance the deficits of, or provide financial support to, an organization in different ways. It could be legally obligated to do so, or it may choose to do so for a variety of reasons.” (GASB 14 ¶ 31, pg 11) Providing public services at a user charge that is insufficient to sustain operations is an example of a financial burden. Related examples of support are annual appropriations, periodic capital grants, and direct payment of capital expenditures or debt service. “A primary government may assume an obligation to finance the deficits of an organization. A financial burden exists if the primary government is obligated to finance an organization’s deficits even though there has not been, and may never be, a deficit to subsidize.” (GASB 14 ¶ 31, pg 11) When a taxing government temporarily waives its right to receive the incremental taxes from its own levy, and a legally separate development authority receives the incremental taxes, this type of tax increment financing is considered evidence of an obligation to provide financial support to an organization (a financial burden). (GASB 14 ¶ 32)</p> <p>(c) “The primary government is obligated in some manner for the debt of the organization.” (GASB 14 ¶ 27c, pg 10)</p> <p>“The obligation can be either expressed or implied. A primary government is obligated in some manner for the debt of an organization if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) it may take certain actions to assume secondary liability for all or part of the debt, and the government takes, or has given indications that it will take, those actions.” (GASB 14 ¶ 33, pg 11)</p> <p>If none of (a) (b) or (c) above apply, mark “no” in the Answer column and “Maybe” in the Component Unit Determination column. Proceed to question 5 below to determine if it would be misleading to exclude the potential component unit because of its relationship with the PG (GASB 14 ¶ 39 - ¶ 41).</p> <p>If (a) (b) <u>or</u> (c) above do apply, then mark “yes” in the Answer column to the right and mark “Yes” in the Component Unit Determination column. “A fiscally dependent government that has the potential to provide a financial benefit to, or to impose a financial burden on, a primary government should be reported as part of that primary government’s financial reporting entity.” (GASB 61 ¶ 6c, page 6) Now proceed to Question 6 below to determine whether the component unit should be presented as blended in the primary government’s financial statements.</p>					
5	<p>Did the management of the primary government determine (according to management’s professional judgment) that it would be misleading to exclude this entity (that was determined above not to be a component unit) from the primary government’s financial statements because of (a) the nature of the entity or (b) because the entity is closely related to or financially integrated with the primary government? See GASB 61 ¶ 4 (a) to (c) and ¶ 5 for additional information on this determination.</p> <p>“Paragraph 12 provides that a primary government may determine, through exercise of management’s professional judgment, that an organization that does not meet the specific</p>					

	Answer to Question	Component Unit Determination				
		Yes	No	Maybe	Yes	No
<p>financial accountability criteria should be included as a component unit to prevent the reporting entity's financial statements from being misleading. This determination should be based on the nature and significance of the organization's relationship with the primary government." (GASB 61 ¶ 4(c), page 3)</p> <p>"In addition, other organizations should be evaluated as potential component units if they are closely related to,^{5a3} or financially integrated with,^{5b} the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity." (GASB 61 ¶ 5, page 4)</p> <p>Footnote 5a3 states "For purposes of this evaluation, the focus generally would be on financial relationships." Footnote 5b states that "Financial integration may be exhibited and documented through the policies, practices, or organizational documents of either the primary government or the organization being evaluated as a potential component unit." (GASB 61 pg 4)</p> <p>If the answer is "no" mark "no" in the Answer column and mark "no" in the Component unit Determination column. <u>You are finished with this worksheet.</u> The entity will not be included in the financial statements of the primary government as a component unit. However, if the potential component unit is a joint venture, See GASB 14 ¶ 69 to ¶ 78 (as amended by GASB 61) for applicable reporting requirements.</p> <p>If the answer is "yes" mark "yes" in the Answer column and mark "yes" in the Component Unit Determination column to the right. Include the entity as a component unit in the primary government's reporting entity pursuant to GASB 61 ¶ 5. Proceed to question 6 below to determine whether the discrete or blended presentation applies.</p>						
<p>6. Does the component unit meet any of the following requirements to be presented as a "blended" component unit?</p> <p>a. "The component unit's governing body is substantively the same as the governing body of the primary government⁷ and there is a financial benefit or burden relationship between the primary government and the component unit, as described in paragraphs 27-33, or (2) management of the primary government has operational responsibility for the component unit." (GASB 61 ¶ 8a(a), pg 8)</p> <p>b. "The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it." However, a component unit that provides services to more than just the primary government should also be blended if the services provided to others are insignificant to the overall activities of the component unit. Other component units that should be blended are those that almost exclusively benefit the primary government by providing services indirectly; for example a component unit that provides services on behalf of the primary government to its employees rather than directly to the primary government itself." (GASB 61 ¶ 8a(b), pgs 8-9)</p> <p>c. "The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Repayment generally occurs through a continuing pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments as the primary source of repayment for its debt." (GASB 61 ¶ 8a(c), pg 9)</p> <p>Footnote 7 – "Substantively the same" means sufficient representation of the primary government's entire governing body on the component unit's governing body so that decisions of the primary government cannot be overridden by the component unit." (GASB 61 ¶ 8a(c), pg 9)</p> <p>If the component unit meets any of the above criteria for blended</p>						

		Answer to Question		Component Unit Determination		
		Yes	No	Maybe	Yes	No
	presentation mark “yes” in the Answer column and present the component unit as blended in the primary government’s financial statements. If the component unit does not meet any of the above criteria for blended presentation, mark “no” in the Answer column and use discrete presentation of the component unit in the primary government’s financial statements.					