

MEMORANDUM

TO: Indiana Public Libraries
FROM: Indiana State Library
RE: SBOA's audit position on Libraries as Component Units
DATE: October 7, 2021

This memo is a result of questions the State Library has submitted to State Board of Accounts and their feedback. Please contact Susan Gordon or Todd Caldwell at libraries@sboa.in.gov with questions about component units.

1. What does it mean to be a Component Unit?

Being a component unit in the public library context means the library's finances are reported in and audited as part of city, town, or county financial statements when the city, town, or county uses Generally Accepted Accounting Principles (GAAP) for financial record keeping and reporting. The Government Accounting Standards Board (GASB) creates the GAAP accounting reporting standards for state and local governments in the United States. Being considered a component unit of a city, town or county does not give the city, town or county additional authority over the library's finances or budgets aside from what is set out in state law.

2. What are the applicable GASB standards that help determine if a library is a component unit?

GASB Statement No. 14 ¶20 defines component units. "Component units are a legally separate organization for which the elected official of the primary government officials are financially accountable. In addition, component units can be 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 No. 14 ¶21 amended by GASB 61 ¶6 describes what financial accountability means.

a. "The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, **or**

b. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens 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 No. 14 ¶16 amended by GASB 61 ¶6 describes what fiscally independent means. “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:

- 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.

A special-purpose government that is not fiscally independent is fiscally dependent on the primary government that holds one or more of those powers. . . .”

GASB Statement No. 14 ¶25 states in part: “. . . If a primary government appoints a voting majority of an organization’s officials and has the ability to impose its will on the organization, the primary government is financially accountable for that organization.”

GASB Statement No. 14 ¶26 states in part, “A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of any one of the following conditions clearly indicates that a primary government has the ability to impose its will on an organization:

- a. The ability to remove appointed members of the organization’s governing board at will.
- b. The ability to modify or approve the budget of the organization.
- c. The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
- d. The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization’s governing body.
- e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.”

GASB Statement No. 14 ¶27 states in part, “An organization has a financial benefit or burden relationship with the primary government if any one of these conditions exists:

- 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.”

3. Applying the applicable GASB standards, when would a library be a component unit of a county?

A library would be considered a component unit of a county if the county is required to or chooses to use GAAP accounting methods and one of the scenarios below apply:

Scenario 1

- a. The county commissioners make 2 appointments to the library board; and
- b. The county council makes 2 appointments to the library board; and
- c. The county is the library’s fiscal body in the event of bonds, leases, the library’s proposed budget/tax levy is above the growth quotient, or library reserves are above a certain threshold, as set forth in state law.

Scenario 2

- a. The county is the library’s fiscal body in the event of bonds, leases, the library’s proposed budget/tax levy is above the growth quotient, or library reserves are above a certain threshold, as set forth in state law; and
- b. A financial benefit burden exists between the two entities (see definition of benefit burden in Question 2 above).

4. Applying the applicable GASB standards, when would a library be a component unit of a city or town?

A library would be considered a component unit of a city or town if the city or town is required to or chooses to use GAAP accounting methods and both of the below factors are met:

- a. The library is fiscally dependent on the city or town (see definition of fiscally dependent in Question 2 above); and
- b. A financial benefit/burden exists between the two entities (see definition of benefit burden in Question 2 above).

5. What Indiana public libraries are currently component units?

Currently there are 16 counties and 10 cities that report on the GAAP Basis. Libraries in the below counties and cities are potential component units and should be evaluated to determine if they meet the GASB criteria for component units.

ALLEN COUNTY

CITY OF FORT WAYNE

CLARK COUNTY
DELAWARE COUNTY
ELKHART COUNTY
HAMILTON COUNTY
CITY OF NOBLESVILLE
CITY OF CARMEL
HENDRICKS COUNTY
JOHNSON COUNTY
CITY OF GREENWOOD
LAKE COUNTY AUDITOR
CITY OF HAMMOND
LAPORTE COUNTY
MADISON COUNTY
MONROE COUNTY
CITY OF BLOOMINGTON
PORTER COUNTY
ST JOSEPH COUNTY
CITY OF MISHAWAKA
CITY OF SOUTH BEND
TIPPECANOE COUNTY
CITY OF LAFAYETTE
VANDEBURGH COUNTY
CITY OF EVANSVILLE
VIGO COUNTY

6. What impact does being a component unit have on the library? What will the library need to change with regard to its financial record keeping and reporting processes?

The component unit reporting requirements are a GASB requirement only and is only a consideration for governments using the GAAP accounting method. Typically, most libraries report on the Regulatory basis, as prescribed by the Indiana State Board of Accounts, so they may not be keeping records to support the GAAP basis. Some items that are specifically associated with GAAP are Capital Assets and Accumulated Depreciation, Accounts Payable, Accounts Receivable, Pension Liability, Other Post-Employment Benefits liability (calculated via an actuary), Deferred Outflows of Resources, Deferred Inflows of Resources, and Long-term debt. When gathering financial data for inclusion in the primary government’s financial statements, this information will be requested by the primary government or its representatives.

Libraries can still be required to have a separate audit report for a bond rating or to be in compliance with continuing disclosure requirements. This can be done on the Regulatory basis, or GAAP basis as determined by the library. If a library feels they may be a component unit of another government, a library representative should reach out to that government to start the discussion on what the library will be responsible for. Ultimately it is the responsibility of the primary government to obtain the needed financial information for inclusion in their financial statements.

7. Will libraries who are determined to be component units still receive separate audits so they can get ratings for bonds and grants?

It is the intention of SBOA to provide an audit for all public libraries when they need it, but at least once every four years. If a library needs an audit for a bond issuance or other needs and, due to time constraints, SBOA cannot do it, SBOA will contract with a private examiner, or work with the library to contract with their own. The most important thing is to inform SBOA early enough so it can be built into the audit plan for the year.

8. If a library receives an audit exception while being audited as a component unit, how much control does the primary government (city, town, or county) have over how the library resolves the audit exception?

If the library is material to the primary government, and the library does not need a separate financial statement report of its own, the library will be audited as part of the primary government. A separate compliance report will be issued for the library that refers the readers to the primary government report for financial information. Any noncompliance identified that is directly related to the library will be presented in this separate compliance report and will be the responsibility of the library to take corrective action.

9. Will there be any impact to the library if the primary government or another component unit audited under the same primary government receives the same audit exceptions in multiple consecutive audits?

No, the library is only responsible for audit findings associated with the library

10. If the library is considered a component unit, how do the library and the primary government's cash balances and reserves impact each other.

There is no impact

This topic will be discussed at the Budget Workshop in November. However, if you have immediate questions about this memo or component units in general, please contact Susan Gordon or Todd Caldwell at libraries@sboa.in.gov.