



Delaware Auditor of Accounts GASB Entity Determination Analysis Memo Delaware State Housing Authority

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Discretely Presented Component Unit

To complete our entity determination analysis, the Office of Auditor of Accounts (AOA) reviewed the following:

- GASB 14, *The Financial Reporting Entity*
- GASB 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34 amended GASB 14, ¶9, 11, ¶12, ¶19, ¶42, ¶44, ¶50 –¶52, ¶54, ¶58, ¶60, ¶63, ¶65, ¶73, ¶74, ¶78, and¶131 and superseded GASB 14, ¶45–47, 49, 56, and ¶57)
- GASB 39, *Determining Whether Certain Organizations Are Component Units*
- GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*
- *AICPA Audit and Accounting Guide – State and Local Governments*, Chapter 3: The Financial Reporting Entity
- *GASB 2011-2012 Comprehensive Implementation Guide*, Chapter 4: The Financial Reporting Entity
- *June 30, 2012 State of Delaware Comprehensive Annual Financial Report (CAFR)*
- *June 30, 2012 Financial Statements – Delaware State Housing Authority (DSHA)*
- *29 Del C. c.86, The Delaware State Housing Authority*
- *31 Del C.c.40 – The Delaware State Housing Authority*
- *Delaware State Housing Authority Council on Housing - Bylaws*

NOTE: The analysis below is based on the documents/guidance reviewed, as detailed above. Additional information or legal interpretations of the portions of the Delaware Code reviewed could impact the analysis and impact a decision on the proper accounting treatment for the entity. The decision of what the appropriate accounting treatment is for the entity, based on a review of all applicable guidance/information, is solely the responsibility of management. As such, AOA does not make such conclusions herein.

1. The PCU is legally separate. (¶ 15)¹

According to GASB, an organization has 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 in the legislation authorizing its creation. A special purpose government (or any other organization) that is *not* legally separate should be considered, for financial reporting purposes, part of the primary government that holds the corporate powers.

¹ Paragraph references are from GASB 14, as amended by GASB 61.



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Application to Delaware State Housing Authority (DSHA)

DSHA is organized as a separate legal entity under Delaware Corporation Law (31 Del. C. §4010). The organization may sue or be sued in its own name (31 Del. C. §4013 (1)). They may also hold, sell, assign, lease, encumber, mortgage or otherwise dispose of any real or personal property in its own name (31 Del. C. §4013).

Code Excerpts as follow:

31 Del. C. §4010. Creation.

In accordance with Chapter 86 of Title 29, there is created in the Executive Department a public corporation of perpetual duration to be called the "Delaware State Housing Authority," hereinafter referred to as "DSHA." Chapter 43 of this title shall apply to DSHA and to its projects as fully as such provisions apply to a housing authority created by §4303 of this title and to its housing projects; provided however, that DSHA shall not be subject to §§4303, 4304, 4306, 4307, 4314 and 4317 of this title.

31 Del C. §4013. Powers of DSHA.

In addition to its other powers, DSHA is hereby granted, has and may exercise all powers necessary or appropriate to carry out and effectuate its corporate purposes, including, without limitation, the following:

- (1) To sue and be sued in its own name;
- (2) To have perpetual succession;
- (3) To maintain an office at such place or places within this State as it may designate;
- (4) To adopt and from time to time, amend and repeal bylaws, rules and regulations, not inconsistent with this chapter, to carry into effect the powers and purposes of DSHA and the conduct of its business;
- (5) To acquire real or personal property, or any interest therein, on either a temporary or long term basis in the name of DSHA by gift, purchase, transfer, in the manner prescribed by Chapter 61 of Title 10, foreclosure, lease or otherwise, including rights or easements; to hold, sell, assign, lease, encumber, mortgage or otherwise dispose of any real or personal property, or any interest therein, or mortgage lien interest owned by it or under its control, custody or in its possession and release or relinquish any right, title, claim, lien, interest, easement or demand, however acquired, including any equity or right of redemption in property foreclosed by it; and to do any of the foregoing by public or private sale, with or without public bidding, notwithstanding any other law;



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3. *The PG appoints the majority of the PCU's board.* (§22-24)

According to GASB, 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 individuals or groups other than the primary government's officials or appointees.

In most instances, legal provisions for appointment of an organization's officials also provide for continuing appointment authority. However, in the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability. Thus, a primary government that creates an organization (creation is tantamount to the initial appointment of the governing body) is accountable for the organization if the primary government can unilaterally abolish it. A primary government is considered to be accountable for an organization as long as continuing appointments are made by the primary government, even if those appointments are made by a subsequent administration.

Application to DSHA

The Housing Director oversees DSHA and is appointed by the Governor, with the consent of the Senate (29 Del. C. §8603 (a)). Additionally, the Authority has an oversight body, referred to in the Delaware Code as the Council on Housing. This Council was created to study, research, plan, and advise the Governor, Housing Director, and the General Assembly on matters it deems appropriate to enable DSHA to function in the best possible manner. The Council on Housing shall be composed of 11 members who are all appointed by the Governor (31 Del. C. §4040).

Code Excerpts as follow:

29 Del C. §8603. Housing Director.

- (a) The administrator and head of DSHA shall be the Housing Director. The Housing Director shall be appointed by the Governor, with the advice and consent of the Senate, and shall serve at the Governor's pleasure. The Housing Director shall be a person qualified by training and experience to perform the duties of the office, and preference shall be given to a resident of this State, provided that resident is acceptable and equally qualified. If the Housing Director is not a resident of Delaware at the time of appointment to the position, the Director must become a resident



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within 6 months of appointment. The Housing Director shall be paid an annual salary established by the Governor within the limitation of the funds appropriated therefor.

31 Del C. §4040. Council on Housing.

- (a) The Council on Housing is continued and shall serve in an advisory capacity to the Governor, Housing Director and the General Assembly and shall consider matters relating to housing in this State and such other matters as may be referred to it by the Governor, the Housing Director or the General Assembly. The Council shall study, research, plan and advise the Governor, Housing Director and the General Assembly on matters it deems appropriate to enable DSHA to function in the best possible manner.
- (b) The Council shall review, advise and make recommendations on all DSHA programs.
- (c) The Council on Housing shall be composed of 11 members to be appointed by the Governor. There shall be 2 members from each county, 2 members that reside in the City of Wilmington and 3 members at large, 1 of which is a member of a tenant organization. The term of appointment to the Council shall be 3 years. Members shall be eligible for reappointment. A member of the Council shall be suspended or removed by the Governor for misfeasance, nonfeasance, malfeasance, misconduct, incompetency, or neglect of duty. A member subject to disciplinary hearing shall be disqualified from Council business until the charge is adjudicated or the matter is otherwise concluded. A member may appeal any suspension or removal to the Superior Court.
- (d) At least 5, but no more than 6, members of the Council shall be affiliated with one of the major political parties and at least 4, but no more than 5, members shall be affiliated with the other major political party; provided however, that there shall be no more than a bare majority representation of one major political party over the other major political party. Any person who declines to announce that person's own political affiliation shall also be eligible for appointment as a member of the Council.
- (e) Members of the Council shall serve without compensation, except that they may be reimbursed for reasonable and necessary expenses incident to their duties as members of the Council.
- (f) A Chairperson of the Council shall be chosen by the members of the Council from among its members and shall serve in that capacity for a term of 1 year. The Chairperson shall be eligible for reelection but may not serve as Chairperson for more than 3 consecutive 1-year terms.
- (g) Any appointment pursuant to this section to replace a member whose position becomes vacant prior to the expiration of the member's term shall be filled only for the remainder of that term. Any person appointed to serve out the remainder of an unexpired term shall be eligible for reappointment.
- (h) The Chairperson of the Council shall direct the Council's operations and shall perform such other duties as the Housing Director may direct.



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- (i) The Council shall have the authority to draft and adopt bylaws governing its operations, consistent with the provisions herein. The Housing Director may assign to employment on behalf of the Council such secretarial, clerical and other assistants in DSHA as the internal operation of the Council shall require and for such purposes as the Housing Director shall consider necessary.
- (j) The Council shall issue an annual report to the Governor, the Housing Director and the General Assembly on its activities, as well as the housing needs of this State, key statistics and trends, Housing Development Fund expenditures and any recommendations for changes in law, policy and/or funding related to housing.

6. *There is a financial benefit/burden relationship. (§ 27-33) The PG is also able to impose its will on the PCU. (§25-26)*

Financial Benefit to or Burden on a Primary Government

According to GASB, an organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials or if the organization is fiscally dependent on the primary government *and* there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, *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.

Exchange transactions between organizations and the primary government should not be considered manifestations of a financial benefit or burden relationship. In an exchange transaction, such as a purchase or sale of goods or services, each participant (the government or its employees rather than the citizenry) directly receives and sacrifices value. For example, funding by a primary government for higher education is not equivalent to purchasing educational services and would be considered a manifestation of a financial burden on the primary government.

The effect of the financial benefits or burdens on the primary government can be either direct or indirect. A direct financial benefit or burden occurs when the primary government itself is entitled to the resources or is obligated for the deficits or debts of the organization. An indirect benefit or burden exists if one or more of the primary government's component units is entitled to the resources or is obligated for the deficits or debts of the organization. For purposes of this Statement, a financial benefit or burden



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relationship exists if the primary government is either directly or indirectly entitled to the resources or is either directly or indirectly obligated for the deficits or debts of an organization.

Legally Entitled to or Can Otherwise Access the Organization's Resources. The ability to access the resources of an organization—not necessarily whether there was an actual transaction during the period—is the important factor for determining when a primary government is entitled to an organization's resources. However, the ability to access the resources of an organization should be judged in light of the organization as a going concern; that is, a residual interest in the net assets of an organization in the event of dissolution is not equivalent to being entitled to its resources. If a primary government appoints a voting majority of an organization's officials *and* is legally entitled to or can otherwise access the organization's resources, the primary government is financially accountable for that organization.

Resources may flow from a component unit to a primary government for several reasons. 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 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.

Legally Obligated or Has Otherwise Assumed the Obligation to Finance the Deficits of, or Provide Financial Support to, the Organization. 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. If a primary government appoints a voting majority of an organization's officials *and* is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, that organization, the primary government is financially accountable for that organization. The following are examples of financial burdens assumed by a primary government in support of certain organizations:

- a. Some organizations provide public services financed by user charges that are not expected to be sufficient to sustain their operations. This situation often results from providing services such as mass transit, higher education, and healthcare. In these cases, public policy may dictate that a state or local government provide financial support to the organization to increase the availability and affordability of the service to a broader segment of the citizenry. Examples of support include annual appropriations to help meet operating expenditures/expenses, periodic capital grants, and direct payment of capital expenditures or debt service.
- b. A primary government may assume an obligation to finance the deficits of an organization. These deficits may or may not be expected to recur annually. 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.

Some organizations' operations are fully or partially funded by revenues generated through tax increment financing. Legally separate development or redevelopment authorities sometimes receive the incremental taxes that result from a tax increment financing arrangement. When this is done, *a taxing government*



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temporarily waives its right to receive the incremental taxes from its own levy. The incremental taxes instead are remitted to the separate organization. For purposes of this Statement, this type of tax increment financing should be considered evidence of an obligation to provide financial support to an organization (a financial burden), regardless of whether the primary government collects the taxes and remits them to the organization or the incremental taxes are paid directly to the organization.

Obligated in Some Manner for the Debt of an Organization. An obligation for the debt of an organization is similar to the notion that a primary government may be obligated for future operating deficits. 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. Conditions that indicate that a primary government is obligated in some manner include:

- a. The primary government is *legally obligated* to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
- b. The primary government is *required* to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
- c. The primary government is *required* to provide funding for reserves maintained by the debtor organization, or to establish its own reserve or guarantee fund for the debt.
- d. The primary government is *authorized* to provide funding for reserves maintained by the debtor organization or to establish its own reserve or guarantee fund *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
- e. The primary government is *authorized* to provide financing for a fund maintained by the debtor organization for the purpose of purchasing or redeeming the organization's debt, or to establish a similar fund of its own, *and* the primary government *establishes* such a fund. (If a fund is not established, the considerations in subparagraphs f and g may nevertheless provide evidence that the primary government is obligated in some manner.)
- f. The debtor government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the primary government *may* cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a law that authorizes the primary government to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the organization.
- g. Legal decisions within the state or previous actions by the primary government related to actual or potential defaults on another organization's debt make it *probable* that the primary government will assume responsibility for the debt in the event of default.



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If a primary government appoints a voting majority of an organization's officials *and* is obligated in some manner for the debt of that organization, the primary government is financially accountable for that organization.

Imposition of Will

A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently has the ability to affect that organization's operations. Sometimes, however, based on the provisions of law or contract, the primary government has little influence over the organization's operations. Certain conditions indicate the primary government's ability to affect the day-to-day operations of an organization. These conditions are referred to in this Statement as a government's ability to impose its will on an organization. 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.

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.

Other conditions may also indicate that a primary government has the ability to impose its will on an organization. In determining whether imposition of will exists, a distinction should be made between substantive approvals and ministerial (or compliance) approvals as discussed in paragraphs 17 and 18.

Application to DSHA

There is a financial benefit/burden relationship between DSHA and the State of Delaware because DSHA is authorized to use up to \$750,000 of the interest income from the State's Housing Development Fund. These monies are to be used for the support of administrative functions associated with that Fund. DSHA may also use appropriated special funds as discretionary expenses (31 Del. C. §4030 (c)(1) and (2)). In addition, the State may appropriate funds for the DSHA's Capital Reserve Fund (31 Del. C. §4020 (a)(1)).



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Even though the Authority creates a financial burden on the State, the bonds issued under 31 Del C. c. 40 shall not directly, indirectly, or contingently obligate the State (31 Del. C. §4019).

According to GASB, 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. The State of Delaware can impose its will on the Authority in the following ways:

1. The Housing Director, who serves as the Chairperson and issuing officer of DSHA, shall be appointed by the Governor and shall serve at the Governor's pleasure (29 Del. C. §8603). However, for the 11 members of the Council on Housing, the Governor has the authority to remove or suspend a member of the Council for misfeasance, nonfeasance, malfeasance, misconduct, incompetency, or neglect of duty (31 Del. C. §4040 (c)).
2. The Authority, with the approval of the Secretary of Finance and the Council on Housing, may borrow from the Housing Development Fund for any lawful purpose with respect to any housing program or financing...upon the terms and conditions as the Secretary of Finance and the Council on Housing shall direct. Although the Housing Development Fund does not represent the Authority's entire budget, the State still has the ability to control this portion of the budget (31 Del. C. §4030 (a)).

Code Excerpts as follows:

31 Del C. §4030. Housing Development Fund.

- (a) The "Housing Development Fund" shall be administered by the Housing Director as a revolving fund for carrying out the purposes of this chapter. DSHA shall report to the General Assembly on an annual basis any private contributions by gift or bequest received and/or deposited in the Housing Development Fund. Sums received from the General Fund, from dedicated sources of revenue, from private contributions by gift or bequest, and in repayment of loans made under this chapter shall be deposited in such Fund. DSHA, with the approval of the Secretary of Finance and the Council on Housing, may borrow from the Fund for any lawful purpose with respect to any housing program or financing with respect thereto, undertaken by DSHA, or for the purpose of investing borrowed funds in accordance with §4013(17) of this title; any such borrowing to be upon such terms and conditions, and with such security, as the Secretary of Finance and the State's Council on Housing shall direct.
- (b) In addition to any further appropriations which may not be reflected in subsection (a) of this section, and in addition to accrued interest on loans, the Housing Development Fund shall retain any interest or other earnings which accrue on uncommitted balances remaining in the Fund undisbursed, and such accrued interest shall not be deposited in the General Fund.
- (c) (1) DSHA is hereby authorized to use up to \$750,000 of the interest income from the Housing Development Fund for the support of administrative functions associated with that Fund.



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- (2) DSHA may use appropriated special funds, less the Housing Development Fund line and \$750,000, given above, as discretionary operating expenses. Discretionary operating expenses include personnel costs, travel, contractual services, supplies and materials, and other normal business expenses of DSHA which are not required to be made pursuant to bond resolutions, trust indentures, or agreements with the federal Department of Housing and Urban Development, or otherwise required by operating agreements of DSHA.
- (3) Nothing herein shall be construed to require any prior approval for DSHA to meet its previously contracted obligations, including debt service requirements under bond resolution or trust indenture of DSHA, nor shall anything contained herein require any such prior approval for any expenditure by DSHA under any such bond resolution or trust indenture or under any agreement with the Federal Department of Housing and Urban Development.

31 Del C. §4020. Capital Reserve Fund.

- (a) DSHA shall create and establish a special fund to secure the bonds, herein referred to as Capital Reserve Fund, and shall pay into the Capital Reserve Fund:
 - (1) Any moneys appropriated and made available by the State for the purposes of such fund; ...

31 Del C. §4019. Credit of State not pledged.

- (a) Bonds issued under this chapter shall be payable exclusively from the revenues and other funds of DSHA and shall contain the following statement on their face: "The State of Delaware is not obligated to pay the principal of this bond nor the interest thereon, nor are the faith and credit of the State pledged to the payment of the principal of, or interest on, this bond."
- (b) The issuance of bonds under this chapter shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment, and the bonds shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction; provided also that §4020 of this title, relative to the Capital Reserve Fund, shall not be deemed to constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

31 Del C. §4040. Council on Housing.

- (c) The Council on Housing shall be composed of 11 members to be appointed by the Governor. There shall be 2 members from each county, 2 members that reside in the City of Wilmington and 3 members at large, 1 of which is a member of a tenant organization. The term of appointment to the Council shall be 3 years. Members shall be eligible for reappointment. A member of the Council shall be suspended or removed by the Governor for misfeasance, nonfeasance, malfeasance, misconduct, incompetency, or neglect of duty. A member subject to disciplinary hearing shall be disqualified from Council business until the charge is adjudicated or the matter is otherwise concluded. A member may appeal any suspension or removal to the Superior Court.



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29 Del. C. §8603. Housing Director.

- (a) The administrator and head of DSHA shall be the Housing Director. The Housing Director shall be appointed by the Governor, with the advice and consent of the Senate, and shall serve at the Governor's pleasure. The Housing Director shall be a person qualified by training and experience to perform the duties of the office, and preference shall be given to a resident of this State, provided that resident is acceptable and equally qualified. If the Housing Director is not a resident of Delaware at the time of appointment to the position, the Director must become a resident within 6 months of appointment. The Housing Director shall be paid an annual salary established by the Governor within the limitation of the funds appropriated therefor.
- (b) In the event of the death, resignation, temporary incapacity or removal of the Housing Director, and prior to the appointment of a successor, the Governor may appoint any qualified employee of DSHA to serve as Acting Housing Director. The Housing Director may, during an absence from the State, appoint any qualified employee of DSHA or any of its subdivisions to serve as Acting Housing Director during such absence. In either case, the Acting Housing Director shall have all the powers and shall perform all the duties and functions of the Housing Director during absence or incapacity or until a successor is duly appointed.
- (c) The Housing Director shall be the Chairperson and issuing officer of DSHA. The powers of DSHA, as specified in Chapter 40 of Title 31, shall be vested in the Housing Director.

7. <i>The CU does not meet any of the blending criteria of ¶53, a, b, or c.</i>
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According to GASB, a component unit should be included in the reporting entity financial statements using the blending method in any of these circumstances:

- a. The component unit's governing body is substantively the same² as the governing body of the primary government *and* (1) 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. Management of a primary government has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies.

Management, for purposes of this determination, consists of the person(s), below the level of the governing board, responsible for the day-to-day operations of the primary government (for example, a county executive or city manager).

² "Substantively the same" means sufficient representation of the primary government's entire governing body on the component unit's governing body to allow complete control of the component unit's activities. To illustrate, the board of a city redevelopment authority may be composed entirely of the city council and the mayor, serving *ex officio*. The primary government is, essentially, serving as the governing body of the component unit. On the other hand, the board of a public housing authority composed of the city mayor and two council members (from a total of ten) ordinarily would not be substantively the same as the city's governing body. This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.



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- 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. The essence of this type of arrangement is much the same as an internal service fund – the goods or services are provided to the government itself rather than to the citizenry. Usually the services provided by a blended component unit are financing services provided solely to the primary government. For example, a building authority may be created to finance the construction of office buildings for the primary government. 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 exclusively, or 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.
- 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.

Application to DSHA

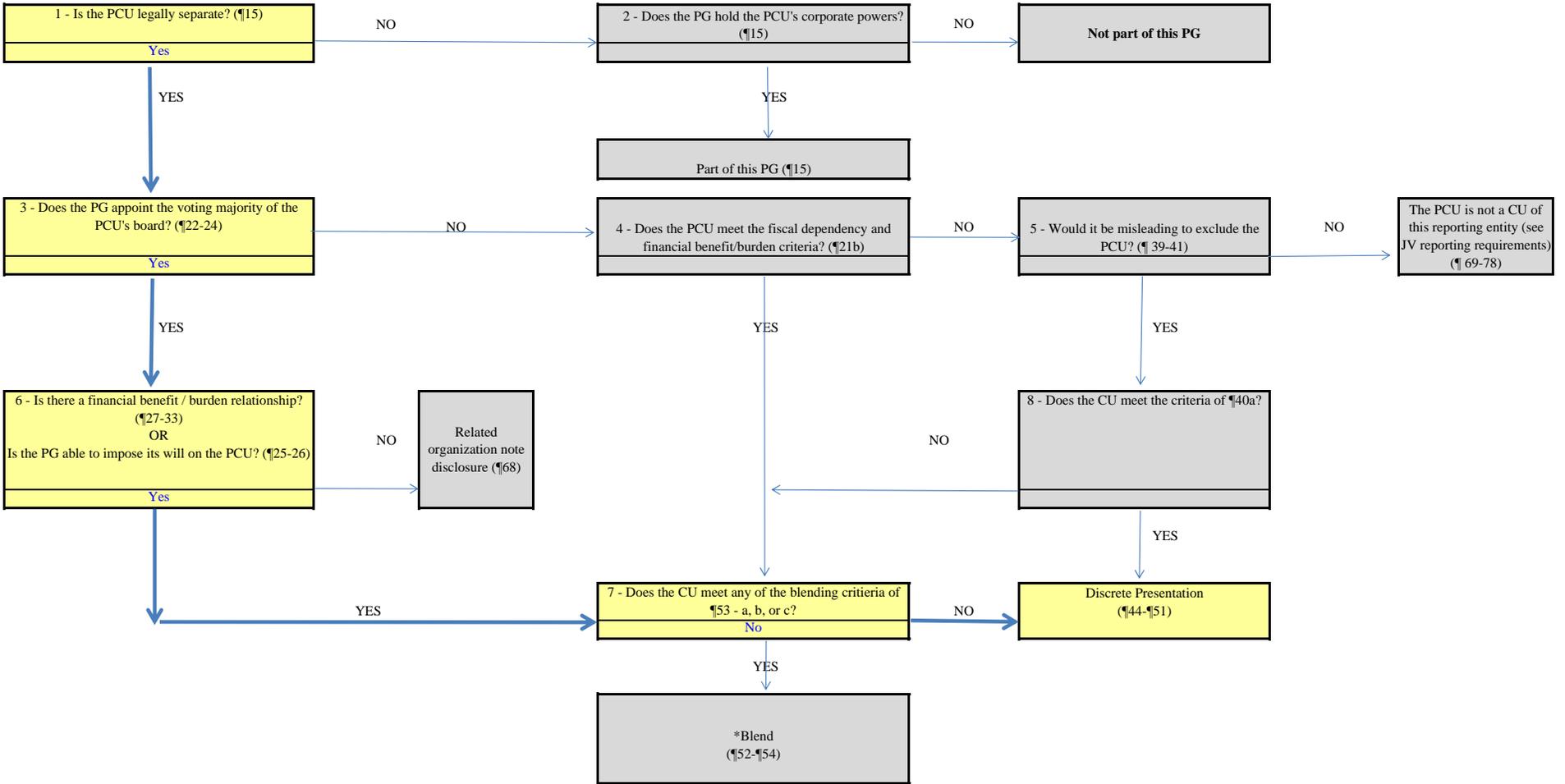
Based on review and consideration of all of the guidance above, including the criteria of ¶53(a) through (c), we conclude the following:

- a. The governing body of DSHA (Housing Director and Council on Housing) is not substantially the same as that of the State (governing body of the State consists of the House and Senate). Further, management of the primary government does not have operational responsibility for the component unit.
- b. DSHA does not provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government even though it does not provide services to it.
- c. The debt of DSHA is not expected to be repaid with the resources of the primary government.

**Delaware Auditor of Accounts
 GASB Determination Analysis Flowchart
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See below for GASB 61 flowchart analysis (refer to the entity determination analysis memo that expands of the guidance used to answer each question in the flowchart below).

Note: Paragraph references are from GASB 14, as amended by GASB 61.



*Note: A potential component unit for which a primary government is financially accountable may be fiscally dependent on and have a financial benefit or burden relationship with another government. An organization should be included as a component unit of only one reporting entity. Professional judgement should be used to determine the most appropriate reporting entity (§21b and §34-§38). A primary government that appoints a voting majority of the governing board of a component unit of another government should make the disclosures required by §68 for related organizations.

PCU = Potential Component Unit CU = Component Unit
 PG = Primary Government JV = Joint Venture