



TINA M. CANNON
UTAH STATE AUDITOR

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Subject: Component Unit Reporting

Introduction

Recently, a developer associated with a Public Infrastructure District (PID) declared bankruptcy. The bankruptcy creates concerns regarding the viability of the project and whether the associated PID will be able to satisfy bonding requirements. This PID was created by a city that appointed the board and will take ownership of the infrastructure constructed by the PID. Furthermore, the PID was required to report annually to the city, and the city must approve any annexations or withdrawals of property into or from the PID. Governmental Accounting Standards Board (GASB) codification 2100 provides guidance for determining if a government entity, such as this PID, is a component unit of a primary government.

Component Unit Determination

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (GASB 2100.119). A primary government can be any general-purpose government entity such as a state, county, city, or town, or a special purpose government entity such as a college or university, school district or water district, provided they function as their own separate legal entity with their own elected governing body.

The main factors to consider when determining whether a government entity is a component unit of a primary government are:

1. Financial Accountability – See GASB codification 2100.120
2. Appointing Authority – See GASB codification 2100.121-.124
3. Imposition of will – See GASB codification 2100.125-.126
4. Financial Benefit or Burden on Primary Government – See GASB codification 2100.127-.133

Component Unit Reporting

Financial statements of the reporting entity should provide an overview of the entity yet allow users to distinguish between the primary government and its component units (GASB codification 2100.144).

Component units can be categorized into discrete component units and blended component units. Discrete component units' financial data must be reported in the primary government's financial statements in one or more columns separate from the financial data of the primary government (GASB codification 2600.107). Blended component units' financial activities are more intertwined with the activities of the primary government and are presented together in the financial statements (GASB codification 2600.112).

Conclusion

Primary governments must determine which government entities qualify as component units. In making this determination, the primary government must consider:

- The appointment of the potential component unit board
- If there is a potential financial benefit/burden relationship that exists between the primary government and the potential component unit
- If the primary government can impose its will on the potential component unit
- If it would be misleading to exclude a potential component unit from its financial statements

Determining if an entity is a component unit should be approached from a perspective of accountability and transparency. Creating entities should account for their actions including the acts of the officials they appoint to operate other governmental agencies. The level of reporting and disclosure should be documented by the creating entity and auditors should provide an opinion on the adequacy of the report.

In the case of most Public Infrastructure Districts, the creating entity will meet the requirements to include the activity of those districts as a discretely presented component unit if they appoint the majority of the board, have a potential benefit or burden relationship, or can impose their will on the entity. Primary governments and external auditors should be mindful of the criteria for including the financial information of component units, including required information in the notes to the financial statements.

Note: several bills from the Utah 2026 General Session were passed that affect PIDs such as HB17, HB475S04, HB492S06, HB507S04, SB39, SB225S03, and SB278S04 and are currently awaiting the governor's action before becoming law, typically on May 6, 2026. The facts and circumstances in place at the end of an audit period must be considered when making a component unit determination. Any changes made to a potential component unit's structure in response to bills enacted from the Utah 2026 General Session or subsequent legislative sessions cannot be applied retroactively. Component unit determinations must follow GASB standards, a nonexchange transaction from a potential component unit to a creating entity constitutes a financial benefit regardless of assertions in statute to the contrary.