POSITION PAPER: IMPLEMENTATION OF GASB 39

Purpose: GASB 39, issued in May 2002, requires institutions to report financial information on component units as defined in GASB 14 and provides guidance regarding entities to be included and presentation of required financial information. This position paper provides guidance to TBR institutions in the implementation of the requirements of GASB 39 and provides guidelines for the consistent reporting of component units in the institutions’ financial statements.

Background: GASB 14, issued in June 1991, provides guidance on the financial reporting entity. Paragraph 41 stated that “…An example of an affiliated organization that may be evaluated for inclusion is a nonprofit corporation whose purpose is to benefit a governmental university by soliciting contributions and managing those funds…The GASB is studying circumstances under which foundations, similarly affiliated organizations, and PERS might be included in the financial reporting entity. Appropriate pronouncements will be issued at a later date.” GASB 39, Determining Whether Certain Organizations Are Component Units was issued in May 2002. The effective date of this statement is for financial statements periods beginning after June 15, 2003. Therefore, all TBR institutions must implement the provisions of this statement for their FY 2004 financial statements.

Issues:

1. Component Units to be Included:

Paragraph 5 of GASB 39 requires “A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents
- The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.”

Recommendation: Each institution is responsible for identifying the separate organizations that may meet the requirements for inclusion as a component unit. Justification for inclusion/non-inclusion based on the first two criteria above are the responsibility of the institution and must be documented. The following criteria should be used for determining if a separate organization meets the significance criteria: Regardless of any other circumstances, all institutional foundations will be considered significant. Other entities, including departmental foundations, research foundations, and other organizations, whose Total Assets or Total Revenues exceed 10% of the institution’s Total Assets or Total Revenues will be considered significant. Organizations that do not meet the above criteria may still be included if it is determined by the institution that the non-inclusion would be misleading to financial statement readers. Such determinations must be justified and documented.
2. Reporting Component Units:

In accordance with paragraphs 125 and 126 of GASB 34 and paragraph 42 of GASB 39, major component units must be discretely presented for the Statement of Net Assets and SRECNA. Component unit information is not required on the Statement of Cash Flows. FASB entities have the option to present statements on a separate page following the GASB statement or adapt to the GASB nomenclature and present on the same page.

**Recommendation:** Each component unit that must be reported in accordance with 1 above must be presented in a separate column to the right of the institution’s information. A total column is not required and will not be presented. All component units must be reported in the GASB formats. Any component unit that is reporting under FASB must be adapted to the GASB nomenclature and reported on the same page. Templates will be provided by TBR with the financial statement instructions. The Statement of Cash Flow template will not include a component unit column.

3. Note Disclosure

**Recommendation:** In accordance with Paragraph 44 of GASB 39, the following note disclosures are required for each discretely presented component unit:

- Brief description of the component unit
- Their relationship to the institution
- Discussion of criteria for including the component units
- How component units are reported
- Nature and amount of significant transactions between the institution and the component unit
- Other disclosures required for fair presentation.
  - Investments
  - Debt
  - Other

4. Transactions Between Institution and the Component Unit

**Recommendation:** As noted above, the institution is required to report the nature and amount of significant transactions between the institution and the component unit. Any expenditure made to, or for, the institution should be recorded. This would include amounts paid directly to the university as well as any expenditures made directly by the component unit that provided a direct benefit to the institution. As an example, if a travel expense was made directly by the component unit for a faculty member to attend a conference, this amount would be included regardless of whether it was paid directly to the faculty member or to the university who then reimburses the faculty member. However, fund-raising expenses paid by the component unit does not have a direct benefit to the institution and would not be reported in the above total.