FREQUENTLY ASKED QUESTIONS
COMPONENT UNITS

1. Why do we have to begin including component unit information?

Reporting information on affiliated organizations was first required by GASB 14 on the financial reporting entity. It provided the example of “a nonprofit corporation whose purpose is to benefit a governmental university by soliciting contributions...” as an example of a potential affiliated entity. It further stated, “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.

2. When is GASB 39 effective?

GASB 39 was effective for financial statement periods beginning after June 15, 2003. Therefore, all TBR institutions must implement the provisions of this statement for their FY 2004 financial statements.

3. What are the requirements for an affiliated entity to be considered a component unit?

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.”

4. How is significance determined?

The TBR has determined that 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, documented, and reported to the TBR Central Office prior to fiscal year end.
5. Does each TTC have to account for a portion of the TTC’s foundation or will it be included in the TBR Central Office financial statements?

Neither. Since the TTC foundation is not held for a primary organization, but for the benefit of several organizations (similar to a United Way), it does not meet the requirements of GASB 39 for a component unit.

6. How will component units be shown on the financial statements?

Each component unit that must be reported 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 presentation format and reported on the same page. Due to the need for the TBR to include a Statement of Cash Flows, each institution must also provide a Statement of Cash Flows under the direct method and reflecting component units as detailed above. In addition, a Statement of Activities reflecting component units will also be required. Templates will be provided by TBR with the financial statement instructions.

7. Do eliminating entries have to be made for transactions that occur between the foundation and the institution?

No. Eliminations between the institution and foundation should not be made for the institution’s financial statements. Payments made to the university by a foundation should be reported as an operating expense of the foundation and in the gift section of the university with appropriate parenthetical amount disclosure. The TBR will eliminate these amounts when the statements are “rolled up.” See FAQ 8 for additional guidance on transactions between the institution and the foundation.

8. Should “on-behalf” payments made by the foundation for the institution be recorded as a gift to the institution?

GASB Statement No. 24 provides guidance for “on-behalf” payments. The guidance applies only to payments for fringe benefits and salaries. In the case of salaries and fringe benefits that are paid by the foundation for the primary government (institution), the primary government must recognize revenue in the form of a gift for the amounts paid “on-behalf” of the employer (the institution). These amounts must also be disclosed in the notes to the financial statements. The institution will also recognize an expense for the salaries and fringe benefits.

Other “on-behalf” payments such as travel, operating and scholarship expenses are not included in the guidance provided by GASBS 24. However, professional judgment should be used to determine the true substance of transactions when the foundation makes payments on behalf of the institution. This is especially true when the institution is holding the cash of the foundation and writing checks directly from
the foundation’s accounts. Each transaction should be analyzed to determine whether these transactions are in fact “gifts” to the institution or payments on behalf of the university. The following is a list of questions that can be used as a guide for determining the proper treatment of such transactions.

a. Does the foundation’s budget include funding for the expenditure and/or does the foundation approve the expenditure?

b. If the transaction is in support of a grant (restricted) activity, was the grant awarded directly to the foundation?

c. Relative to scholarships, is the criteria for awarding the scholarships established by the foundation and/or does the foundation select students that will receive the scholarship?

d. Was the transaction supported by foundation funds because it was not an allowable expenditure for the institution, i.e., lobbying activities?

If the answer to any or all of the above questions is “Yes,” the institution generally should not record gift revenues nor include the amounts in the “payments to institution” line in the component unit column, because the substance of the transaction is that the foundation (and not the institution) is determining how the funds are expended. Please keep in mind that this list of questions is not exhaustive; the substance of the transaction will determine the correct method for handling the transaction. If the answer to any or all of the above questions is “No,” the transaction should be treated as a gift from the foundation to the institution. See FAQ 7 for additional guidance on how to present gift transactions.

9. If my foundation is in the agency fund, will I report the foundation assets in both the institution and the component unit columns?

Depends. If the funds are maintained in the institution’s bank account or if the institution has set up a separate bank account but has maintained control of the funds then the institution column will include the foundation assets on the cash and cash equivalents, investments, and/or accounts receivable lines. The component unit column, however, will report these same assets as “Deposits with University/College” not as cash and cash equivalents, investments, or accounts receivable. Foundation assets other than cash and cash equivalents, investments, or accounts receivable are not part of the institution’s agency fund and should not be reported in the institution column. If the Foundation is in control of the bank account, investments and accounts receivable, then these items will be reported in the component unit column only under the appropriate heading as opposed to “Deposits with University/College.” Control is evidenced by such things as authority to sign checks as well as the role in which the person signs a check. For example, if a Vice President for Finance signs a Foundation check, is he/she signing in the role of the VP or as a Foundation official.

10. What note disclosures are required for component units?
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
- Name and address to write to get a copy of the component unit audit report
- Other disclosures required for fair presentation.
  - Investments
  - Debt
  - Other

There is no requirement for FASB reporting component units to recast notes to GASB formats. Notes for component units will be included in one section as opposed to being included in each separate note. This will enable FASB reporting units to use a “lift and drop” approach for note disclosure. For CAFR purposes, in some instances additional information will need to be provided to permit the reader to reconcile certain amounts in the notes to the financial statements. For example, in order to reconcile back to the SNA, information will have to be added to the GASB 3 note to reflect the dollars in cash and investments that are reported under the FASB model and are not included in the note. The same approach will be followed for other GASB required notes that are not required by FASB, such as the detail in the capital assets and changes in long-term obligations notes. The TBR will provide the usual note template.

11. What are the requirements for MD&A?

Component unit information will be presented in the condensed financial statements. Paragraph 10 of GASB 34 requires the MD&A to focus on the primary government. Comments relating to information presented must be distinguished between the institution and component unit. Institutions must use professional judgment that should be based on the component unit’s significance and relationship to the institution when determining if comments are warranted. The TBR will provide the usual MD&A template.

12. Will State Audit now audit the foundation’s financial statements annually and prepare a separate report for the foundation?

For those institutions that maintain a foundation in their agency fund, state audit will include the foundation amounts in their normal audit test work. At this time, there is not a plan for state audit to issue separate audit reports for the foundations.