



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

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GOVERNOR

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COMMISSIONER OF ADMINISTRATION

March 26, 2003

MEMORANDUM OSRAP 03-26

TO: All Fiscal Officers
CAFR Entities

FROM: F. Howard Karlton, C P A, CGFM
Director

SUBJECT: Governmental Accounting Standards Board Statement No. 39
*Determining Whether Certain Organizations Are Component Units –
an amendment of GASB Statement No. 14*

Attached for your information and use is a synopsis of Governmental Accounting Standards Board (GASB) Statement No. 39. Included in the synopsis are criteria to aid you in identifying and evaluating organizations as potential component units. Using these criteria, you are required to evaluate your organizations to determine if they are potential component units (PCU) that must be discretely reported in your Annual Financial Report (AFR). The AFR will be submitted to the Office of Statewide Reporting and Accounting Policy (OSRAP) and will be reported in the Comprehensive Annual Financial Report (CAFR) of the State of Louisiana for the fiscal year ending June 30, 2004. To obtain your own copy of GASB Statement Number 14 and/or 39, you may call the order department of GASB at (800) 748-0659 or place your order online at www.GASB.org.

Remember, we, per the synopsis, are asking you to look for those legally separate, tax-exempt organizations meeting the very specific criteria established by the GASB. Usually, these organizations provide substantial financing to your agency, and would include: foundations for museums, colleges and other state agencies.

If organizations are found to be part of your financial reporting entity, you are requested to submit the following to the Office of Statewide Reporting and Accounting Policy (OSRAP):

1. Name of each organization;
2. Fiscal year ending of each organization;
3. Copy of most recent audited financial statement of each organization; and

4. Contact person *at your entity*, email address, and telephone number.

If none of the organizations are found to be part of your financial reporting entity, submit a statement that you have not found any organizations to be part of your financial reporting entity under GASBS No. 39 to OSRAP.

All entities must respond to this memorandum by May 1, 2003.

If you have any questions concerning this memorandum, please contact Mr. Afranie Adomako or Ms. Sue Seab at (225) 342-0708. This OSRAP Memorandum may also be obtained from our Internet home page (<http://www.state.la.us/osrap/>).

FHK/DRZ

Attachment

C: Mr. Whitman J. Kling, CPA, CGFM
Mr. Tom Cole, CPA
Mr. Afranie Adomako, CPA
Ms. Sue Seab, CPA, CGFM
File

Summary of GASB Statement No. 39

Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14 (Issued 5/02)

An objective of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, is that all entities associated with a primary governmental unit are potential component units and should be evaluated for inclusion in the financial reporting entity. GASB Statement No. 39 amends GASB Statement 14 to provide additional guidance to determine whether certain entities, such as not-for-profit foundations, booster groups and schools related to public universities, for which the primary government is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary government. Currently the state of Louisiana does not report the financial activities of these entities in the Comprehensive Annual Financial Report (CAFR) since they were not required to be reported.

The requirements of this statement apply to all levels of state and local governments, including reporting by:

- Primary governments;
- Governmental joint ventures;
- Jointly governed organizations;
- Stand-alone governments;
- Separately issued financial statements of governmental component units;
- Governmental enterprises;
- Public benefit corporations and authorities;
- Public employee retirement systems;
- Governmental utilities;
- Governmental hospitals and other healthcare providers;
- Governmental colleges and universities; and
- Governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

Organizations that are **legally separate, tax-exempt** entities that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

1. 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.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the

separate organization.

3. 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.

Example 1: Library Foundation

Facts: ABC Library Foundation was established as a legally separate, tax-exempt organization to support ABC Public Library. The foundation has a history of supporting the library with a majority of the financial resources it raises. Throughout the year, the library requests funding from the foundation to support various projects. The resources distributed to the library in any single year may or may not be significant, but the resources held by the foundation are significant to the library.

Conclusion: ABC Library Foundation is a component unit of ABC Public Library and should be discretely presented in ABC Public Library's reporting entity financial statements. The foundation's resources are almost entirely for the benefit of ABC Public Library and the "entitlement/ability to access" criterion is met because the foundation has a history of supporting the library with its economic resources. Finally, the resources received or held by the foundation that the library is entitled to are significant to the library.

Example 2: University Alumni Foundation

Facts: KMH University Alumni Association was established as a legally separate, tax-exempt organization to support both KMH University and students of the university. Generally, when the university awards a scholarship to a student who meets the criteria established by the alumni association, the University requests funds from the alumni association's resources. Normally, the alumni association honors the request and transfers the funds to the university. In the current year, the alumni association endows a chair and fourteen scholarships for the KMH University School of Business and donates the funds to KMH University. The funds donated directly to the university and the resources held by the association are significant to the university's financial statements.

Conclusion: KMH University Alumni Association is a component unit of the university and should be discretely presented in the university's reporting entity financial statements. The alumni association's resources are entirely for the direct benefit of the university or the university's students. The 'entitlement/ability to access' criterion is met because the association has historically complied with the university's request for funding. In addition, the resources received and held by the association that are required to be used for the benefit of the university or to provide scholarships to deserving students are significant to the university.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with your reporting entity. It is a matter of professional

judgment to determine whether the nature and the significance of a potential component unit's relationship with your reporting entity warrant inclusion in your the reporting entity.