

## Appendix C – Component Unit Q & A

In the questions below, we are using a university as an example. These questions apply to all entities that report as stand-alone BTA's.

Q1. How should a university present a GASB-basis blended component unit (e.g., a Foundation) that reports fiduciary activities in their financial statements?

A1. For a GASB-basis blended component unit that reports fiduciary activities in their stand-alone financial statements, the blended component unit's fiduciary activities should be reported in the University's fiduciary fund financial statements, aggregated with the Universities' fiduciary funds.

Q2. How should a university present a discretely presented component unit (e.g., a Foundation) that reports fiduciary activities in their stand-alone financial statements?

A2. For a discretely presented component unit that has fiduciary activities and presents stand-alone financial statements, the discretely presented component unit's fiduciary activities would **not** be presented in the University's fiduciary fund financial statements. However, if the discretely presented component unit **does not** present stand-alone financial statements, then the discretely presented component unit's fiduciary activities should be reported in the University's stand-alone financial statements (materiality considered). This is further discussed in the Basis of Conclusion section of GASB 84, paragraph B44.

Q3. If the University sponsors an external investment pool, what reporting changes are required with the implementation of GASB 84?

A3. With the implementation of GASB 84, external portions of external investment pools are considered a fiduciary activity and should be reported in the University's fiduciary fund financial statements. This external portion is the portion for legally separate entities that are not component units of the University. If the assets are held in trust, based on the criteria in GASB 84, the external portion of the pool will be reported as an investment trust fund (GASB 84, paragraph 16 and Implementation Guide No. 2020-1, question 5.3). If the assets are not held in trust, the external portion of the investment pool should be reported in a separate external investment pool fund column within the custodial funds classification in the University's fiduciary fund basic financial statements. (GASB 84, paragraph 18 and Implementation Guide No. 2019-2, questions 4.40 and 4.43). If more than one external investment pool is administered and none of the pool's assets are held in trust, the external portions of the investment pools would be combined and reported in a single external investment pool fund column within the custodial funds classification in the fiduciary fund basic financial statements. (GASB Implementation Guide No. 2019-2, question 4.43).

The internal portion (the University's own resources) of the investment pool's balances will remain in the University's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. (GASB Implementation Guide No. 2020-1, question 4.3). If discretely presented component units (DPCUs) participate in the external investment pool, the

DPCU will report its portion of the investment pool's balances in the DPCU's financial statements in the University's stand-alone report.

Q4. Will changes be required to the Summary of Significant Accounting Policies note disclosures?

A4. The financial reporting entity could now include three different component unit classifications – blended component units, discretely presented component units and fiduciary component units. Universities need to review and update these note disclosures when describing their reporting entity. For example, if an external investment pool was previously reported as a blended component unit but under GASB 84, it is a fiduciary component unit then a change will be required in the Summary of Significant Accounting Policies note disclosures. This would also change the blended component unit note.

Q5. With the implementation of GASB 84, what reporting changes are needed in the 905 annual package worksheet submitted to OSC? Are there any other considerations?

A5. If a university has material fiduciary activities, the fiduciary activities will be reported in separate fiduciary fund exhibits in the University's stand-alone financials. The activity reported in these fiduciary fund financial statements will not be reported in the State's annual report. Therefore, this fiduciary activity should not be reported in the 905 worksheet. The 905 worksheet should agree to the university's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position.

There is one other consideration for the annual report package – universities that operate external investment pools and the information disclosed on the 710 investments worksheet. For those universities, there could be a new variance on the 710 worksheet. If the university operates an external investment pool, all investments of this pool will be reported on the 710 worksheet; however, the external portion of this investment pool will not be reported in the university's financial statements on the 905 worksheet. These investments will be reported in a fiduciary fund (investment trust fund or custodial fund) of the university. Also see Q & A number 3 above.

If other fiduciary funds of the university, not the external portion of external investment pools, have investments, these investments will not be reported on the 710 worksheet for the annual report and should equal the 905. However, these investments will be disclosed in the university's stand-alone financial statement note disclosures.

Q6. Will the movement of fiduciary funds from the Statement of Net Position (SNP) and Statement of Revenues, Expenses and Changes in Net Position (SRECNP) to the Statement of Fiduciary Net Position (SFNP) and Statement of Changes in Fiduciary Net Position (SCFNP) change the GASB 39 determination (i.e., should the university combine the assets and revenues reported on both SNP and the SFNP as well as the SRECNP and the SCFNP for this determination)?

A6. Yes, the GASB 39 determination will change with the implementation of GASB 84. When the university determines the significance of GASB 39 entities, the university should not include the Statement of Fiduciary Net Position and the Statement of Changes of Fiduciary Net Position with university's SNP and SRECNP. The determination should be based only on the university's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position. The reason for this is the fiduciary assets and revenues held and earned by these custodians/trustees are not the university's assets and revenues. Therefore, if the university has material fiduciary activities, the expectation is the university's GASB 39 significance threshold will decrease since the fiduciary activities' revenues and assets are removed from the SNP and SRECNP.

Q7. If a potential component unit is not considered a discretely presented component unit (DCPU) because it does not meet the 5% threshold established for significance, should the investments held on their behalf in the external investment pool be considered external for fiduciary statement purposes?

A7. If the university determines that the potential DPCU is not significant, then the reporting for this entity would be that it is a non-related entity, i.e., not part of the University's financial reporting entity. Therefore, the university should report this non-related entity's investments in the external portion of the external investment pool. This external portion should be presented in a fiduciary fund as either an investment trust fund or custodial fund of the university. Also see Q & A number 3 above.