

# **Financial Services Manual (FIN)**

## **FIN 130: Component Unit Affiliated Entity Policy**

Effective: 11/1/2009

Revised: 6/10/2022

### **Purpose**

To standardize the requirements for establishing and maintaining component unit affiliated entity status with the University.

### **Sources**

Government Accounting Standards Board, Statement No. 14, 39, 61 and 80

Arizona Board of Regents Policy 1-125: Oversight of University Relationships with Component Unit Affiliates  
University policy

### **Policy**

#### **Recognition of Component Unit Affiliated Entity**

In accordance with Governmental Accounting Standards, the university may recognize an organization as a component unit affiliated entity. To be recognized as a component unit affiliated entity, the organization must:

1. Be legally separate from the Arizona Board of Regents and the university;
2. Be exempt from federal and state income taxes, unless otherwise agreed upon by the university;
3. Have a mission that is in support of, or complementary to, the mission of the university;
4. Have governing documents that provide for, all of the organization's assets, upon dissolution, to be distributed to the university or to another tax-exempt organization with similar purposes as the dissolved organization;
5. Hold economic resources, and conduct activities, entirely or almost entirely for the direct benefit of the university;
6. Formally agree to abide by ABOR's and the university's current and future policies regarding component unit affiliated entities; and
7. Execute a written agreement with the university that recognizes the organization as a component unit affiliated entity, which is separate and independent from the university.

A component unit affiliated entity is not the agent of the university and will not represent or imply that it operates under an agency, partnership, or joint venture relationship with the university. The organization must take appropriate steps in dealing with third parties to ensure such parties understand that the component unit affiliated entity is a separate legal entity from the university. Such steps will include, but are not limited to, separate business cards, letterhead, websites, social media, email signatures, appropriate identification of the entity during introductions or answering of phones, and signage in offices or on buildings.

#### **Organizational and Fiscal Requirements for Component Unit Affiliated Entities**

The university is required to report activity related to its component unit affiliated entities in the university's audited Annual Comprehensive Financial Report (ACFR), in accordance with Governmental Accounting Standards unless such activity is deemed immaterial by the university. In addition to other guidelines as may be established by the university, component unit affiliated entities are required to meet minimum organizational standards and to implement sound appropriate fiscal and business procedures practices as a requisite to remain in good standing with the university. The

university expects component unit affiliated entities to adhere to the following Minimum organizational standards and business practices include:

- use a fiscal year structure of July 1 - June 30, when practical to do so;
- by a date determined annually in conjunction with the university's financial audit, provide to ASU Financial Services a copy of the organization's annual financial statements and audit by an independent CPA firm approved by the university, unless the level of financial activity of the component unit affiliated entity is deemed immaterial by the university,
  - notify ASU Financial Services promptly should any issue arise during the annual audit which could impact the auditor's opinion letter;
- annually provide the university an electronic copy of the organization's Form 990, except any portion that is exempt from disclosure under federal statute or IRS regulations;
- operate within an annual budget process as described in the agreement with the university;
- ensure all compensation paid to officers and directors is approved by its governing body;
- comply with provisions regarding university approval of restrictive terms and conditions attached to gifts, to the extent of restrictive term(s) impose a commitment, obligation or responsibility on the university.
- maintain appropriate insurance levels, as determined by the organization's governing body, for general liability, property casualty, commercial/business automobile liability and directors' and officers' liability insurances, unless the university agrees the insurance is not needed;
- indemnify the university from any damages or liabilities that the university may incur as a result of the organization's actions or omissions;
- comply with university policy regarding payments to or on behalf of university employees;
- ensure all transactions between the university and the organization are appropriately documented and approved;
- obtain university approval before using the university's name in any course, seminar, conference or similar offering on the part of the organization;
- provide to the university copies of any amendments to the organization's articles of incorporation, bylaws or similar governing documents; and
- ensure conflict of interest policies are in place and enforced covering relationships both between the organization entity and its directors, officers and employees and persons doing business with the organization;
- provide evidence of bonding of officers and staff members of the organization, if applicable

#### **University Oversight of Component Unit Affiliated Entities**

The university designated official responsible for oversight of university relationships with component unit affiliated entities is responsible for reviewing agreements, maintaining copies of documentation regarding resources provided and services received and working with other members of the university community to identify, monitor and mitigate risks associated with the agreements.

The relationship between the university and each of its component unit affiliated entities must be memorialized through a written master agreement that is reviewed by university counsel and the university presidents or the president's designee. Amendments to these agreements must also be reviewed by university counsel and the university president or the president's designee before being provided to ABOR.

The university will conduct a periodic review (at least once every five years) of its relationship with each of its component unit affiliated entities to determine whether its agreement with each organization reflects the needs of the university and is compliant with ABOR policy and applicable law. The university will provide an annual report on the university's component unit affiliated entities to ABOR in accordance with ABOR policy.

**Nonexclusivity**

Nothing in this policy restricts the authority of the university to enter into affiliation arrangements with outside organizations that are not considered “component units” under Government Accounting Standards, on such terms as the university deems appropriate.

**Diversity**

ASU strongly encourages diversity both to represent the broader community constituents as well as diverse subject matter expertise among the board members of the component unit affiliated entity’s board of directors or other governing body.