

Memorandum

To: William A. Nance, Vice President, Finance and Support Services
Dr. Billy C. Covington, Associate Vice President, Research and Federal Relations
William L. Fly, University Attorney

Through: Terry R. Ondreyka, Associate Vice President, Financial Services

From: James L. Webb, Jr., Director of Accounting *James L. Webb, Jr.*
Lisa C. Braun, Associate Director of Accounting, Financial Reporting & Analysis *Lisa C. Braun*

Date: January 21, 2011

Subject: Fiscal Year for the Texas State University – San Marcos Research Foundation

The Texas State University – San Marcos Research Foundation's Board will soon take action to align existing differences in accounting documents and related Board actions pertaining to the Foundation's fiscal year end. Following a thoughtful discussion between the Finance Department leadership, the General Accounting Office recommends to the Board that the fiscal year of the Texas State University – San Marcos Research Foundation be established as March 1 through February 28.

The Research Foundation's financial statements will be incorporated into the university's annual financial report (AFR) as a component unit. GASB Statement 14, paragraph 59 permits primary governments and their component units to maintain different fiscal year-ends where a common fiscal year-end is not practical. When the fiscal year-ends differ, the primary government may include component unit financial statements dated during the primary government's fiscal year and up to three months into the subsequent fiscal year. For example, the fiscal year 2011 financial statements for the university may incorporate component unit financial statements dated between September 1, 2010, and November 30, 2011.

Due to tight timelines for completion and submission of the university's AFR to the Texas State University System Office, moving the Research Foundation's fiscal year end to February 28 is desirable. This will allow sufficient time to complete the Foundation's audit and blend their financial statements into the university's AFR. Assuming the university achieves its strategic goals of growing research and commercialization activity, having sufficient time for financial statement preparation and audit will become even more important in future years as future activity becomes more complex and resource intensive.

Currently, staff resources in Financial Reporting & Analysis (FR&A) are utilized at near full capacity year round. During the AFR season, FR&A works additional hours to complete the university's AFR in a timely manner. Using a common fiscal year will require completion of both sets of financial statements during that same timeframe, resulting in a higher number of additional hours worked and a greater strain on staff. Resources will be better utilized if the Research Foundation's fiscal year is moved to a February 28 year end.

Attachments

4.36.2. Q—Activities of a legally separate component unit are included in the budget for the primary government's general fund. What effect should this have on the budgetary comparison? (Q&A14-109) [Amended 2003]

A—The budgetary comparison should be consistent with the budget. Thus, the activities of a component unit in the primary government's budget should not be excluded from the budgetary comparison. Entity differences should be reconciled to actual amounts on a GAAP basis, based on the requirements included in National Council on Governmental Accounting (NCGA) Interpretation 10, *State and Local Government Budgetary Reporting*, as amended.

4.37 Intra-Entity Transactions and Balances

4.37.1. Q—How should capital lease arrangements between a discretely presented component unit and the primary government be reported? (Q&A14-110)

A—The amounts receivable and payable related to the capital lease should be reported separately from other amounts due between the primary government and the discretely presented component unit, and separately from capital leases with parties outside the reporting entity. For example, the display for the primary government could resemble the following:

Capital leases payable:	
Component units	432,100
Others	1,369,000

4.37.2. Q—How should capital lease arrangements between a blended component unit and the primary government be reported? (Q&A14-111) [Amended 2003]

A—If the capital lease involves general governmental capital assets, the primary government would report the capital assets and the related debt in the governmental activities column in the statement of net assets. If the capital lease involves capital assets used by a business-type activity (enterprise fund), the assets and debt would be reported with the other assets and debt of the business-type activity (enterprise fund) on its statement of net assets. In either case, the long-term receivable and the long-term payable relating to the capital lease should be eliminated.

4.37.3. (Q&A14-112) [Deleted 2003]

4.38 Reporting Periods

4.38.1. Q—How should the financial statements be presented when a component unit has a different year-end than the primary government? (Q&A14-113) [Amended 2003]

A—Paragraph 59 of Statement 14 states that the reporting entity (which reports using the primary government's fiscal year) **should incorporate the financial statements for the component unit's fiscal year that ends during the reporting entity's fiscal year. However, if the component unit's fiscal year ends within the first quarter of the reporting entity's subsequent fiscal year, the reporting entity can incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity's fiscal period.** For example, a primary government that has a **fiscal year ending December 31, 20X4, can include the data of component units that have fiscal years ending from January 1, 20X4, through March 31, 20X5.**

data for the discretely presented component units are not required to be presented in the reporting entity's combined statement of revenues, expenditures, and changes in fund balances—budget and actual.

Intra-Entity Transactions and Balances

57. Some transactions and balances between a primary government and its component units (and among the component units) may need to be reclassified for presentation in the reporting entity's financial statements. Transfers between the primary government and its blended component units (and among the blended component units) should be reported as required by Codification Section 1800, "Classification and Terminology," paragraphs .102–.107, for interfund transfers. Similarly, receivables and payables between the primary government and its blended component units should be reported as amounts due to and due from other funds. Balances and transfers between the primary government and component units that are discretely presented (and among those component units) should be reported in accordance with Cod. Sec. 1800.102–.107, except that the amounts of the balances and transfers (due to/from and transfers to/from component units) should be reported separately from interfund balances and transfers (due to/from and transfers to/from other funds).⁸

58. Capital lease arrangements between the primary government and blended component units (or between blended component units) should not be reported as capital leases in the financial reporting entity's financial statements. Instead, the lease arrangement should be reported in accordance with Codification Section L20, "Leases," paragraph [.121]. The debt and assets of the blended component unit should be reported as a form of the primary government's debt and assets. For example, the leased general fixed assets would be reported in the General Fixed Assets Account Group (GFAAG) and related debt would be reported in the General Long-Term Debt Account Group (GLTDAG). The debt service activity of the blended component unit would be reported as a

debt service activity of the primary government. If the blended component unit has a general fund, it would be included as a special revenue fund of the primary government. Capital lease arrangements between the primary government and discretely presented component units (or between those component units) should be reported as discussed in Cod. Sec. L20[.122]. Related receivables and payables should be reported separately from other amounts due to or due from component units and separately from capital lease receivables and payables from organizations outside the reporting entity. To avoid double counting of assets and liabilities resulting from capital lease arrangements, eliminations may be made in accordance with Cod. Sec. 2200[fn5].

Reporting Periods

59. The primary government and its component units **may have identical or different fiscal year-ends**. A common fiscal year-end for the primary government and all component units is encouraged. The advantages and disadvantages of a common fiscal year-end should be considered when determining the practicality of making such a requirement. **If it is determined that a common fiscal year-end is impractical, the reporting entity (which reports using the primary government's fiscal year) should incorporate financial statements for the component unit's fiscal year ending during the reporting entity's fiscal year. If the component unit's fiscal year ends within the first quarter of the reporting entity's subsequent fiscal year, it is acceptable to incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity's fiscal period.** Of course, this should be done only if timely and accurate presentation of the financial statements of the reporting entity is not adversely affected.

60. If transactions between component units that have different fiscal years result in inconsistencies in amounts reported as due to or due from, transfer to or transfer from, and so forth, the nature and amount of those transactions should be disclosed in the notes to the financial statements. The fiscal year of the component

⁸Although Codification Section 1300, "Fund Accounting," paragraph .110, allows current amounts due to and due from the same funds to be offset and the net amounts shown in the respective fund balance sheets, this right of offset may not be enforceable at law for the legally separate component units. Therefore, the option to offset may be exercised only if there is a legal right to offset.

TxSt-SM: Resolution to Approve Fiscal Year

Upon motion of _____, seconded by _____, it was ordered that:

The attached resolution establishing the fiscal year of the Texas State University – San Marcos Research Foundation be approved.

**RESOLUTION RELATING TO THE ESTABLISHMENT OF THE TEXAS STATE
UNIVERSITY – SAN MARCOS RESEARCH FOUNDATION FISCAL YEAR**

TEXAS STATE UNIVERSITY – SAN MARCOS RESEARCH FOUNDATION

WHEREAS, the Board, during the January 14, 2010, meeting, previously adopted a fiscal year from September 1 to August 31 for the Texas State University – San Marcos Research Foundation (Foundation);

WHEREAS, the fiscal year of September 1 to August 31 adopted by the Board coincides with the fiscal year end of Texas State University – San Marcos (University);

WHEREAS, the University is required by generally accepted accounting principles to include the audited financial statements of the Foundation as a component unit in the University's Annual Financial Report;

WHEREAS, sufficient time and resources are needed to ensure the timely completion of the Foundation's financial statements and to perform the audit;

WHEREAS, the Board has determined that common fiscal years are not practical considering the time constraints and resources available;

WHEREAS, generally accepted accounting principles permit primary governments and their component units to maintain different fiscal year-ends where a common fiscal year-end is not practical;

WHEREAS, generally accepted accounting principles permit the primary government to include component unit financial statements dated during the primary government's fiscal year and up to three months into the subsequent fiscal year; and

WHEREAS, no reportable financial transactions for the Foundation have occurred to date.

**BE IT RESOLVED BY THE BOARD OF THE TEXAS STATE
UNIVERSITY – SAN MARCOS RESEARCH FOUNDATION:**

The Board hereby adopts a fiscal year of March 1 to February 28, effective with the fiscal year ending February 28, 2011.