



# GUIDELINES

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## **Governing the Relationships between Component Unit Affiliates and Universities under the Jurisdiction of the Arizona Board of Regents**

Government Accounting Standards Board Statement No. 39 (“GASB 39”) requires that certain non-governmental entities affiliated with the universities be treated as “component units” for financial reporting purposes. These may include alumni associations, development foundations and other organizations that raise and hold significant economic resources for the direct benefit of the universities (“Component Unit Affiliates”). Each university shall adopt a policy regarding the recognition by the university of such entities or organizations. While recognizing that not all Component Unit Affiliates will necessarily engage in all of the activities governed by the following principles, such policy shall at a minimum include provisions that are consistent with these principles.

- A. A Component Unit Affiliate is not the agent of the university and shall not represent or imply that it operates under an agency, partnership, or joint venture relationship with the university. A Component Unit Affiliate must take appropriate steps in dealing with third parties to ensure that such parties understand that the organization is a separate legal entity from the university. Such steps shall include, but not necessarily be limited to, separate business cards, letterhead, appropriate identification of the organization when answering the telephone, telephone directory listings, and signs on offices and buildings.
- B. In order to be recognized by the university as a Component Unit Affiliate, the organization must:
  - 1. Be legally separate from the Board of Regents and the university;
  - 2. Be exempt from federal and state income taxation unless otherwise agreed;
  - 3. Have governing documents that provide that, upon dissolution, all of the organization’s assets shall be distributed to the university or to another tax exempt organization having purposes substantially similar to those of the dissolved organization;
  - 4. Hold economic resources, and conduct activities, entirely or almost entirely for the direct benefit of the university; and
  - 5. Formally agree to abide by the university’s current and future policies regarding Component Unit Affiliates.
- C. The university may periodically review the status of each recognized Component Unit Affiliate to ensure that the organization is operating in accordance with the university’s policy regarding Component Unit Affiliates.
- D. A Component Unit Affiliate must follow sound fiscal and business practices, and in this connection must:
  - 1. Be audited annually by an independent CPA firm approved by the university, or by one that meets criteria set by the university, if the university wishes to establish such criteria;
  - 2. Operate in accordance with an annual budget appropriate for its scope of operations; and



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3. Ensure that all compensation paid to officers and directors is approved by its board of directors or other governing body.
- E. In either its university policy or in its affiliation agreements, the university shall require Component Unit Affiliate to comply with provisions regarding approval of restrictive terms and conditions attached to gifts.
- F. A Component Unit Affiliate must agree to indemnify the university from any damages or liabilities that the university may incur as the result of the organization's actions or omissions.
- G. In either its university policy or in its affiliation agreements, the university shall establish, and shall require, Component Unit Affiliate to comply with provisions regarding approval of payments to or for the benefit of university employees.
- H. All transactions between a Component Unit Affiliate and the university shall meet the normal tests for ordinary business transactions, including proper documentation and approvals.
- I. No Component Unit Affiliate shall offer any course or seminar in which the name of the university is used without first obtaining the university's permission.
- J. A Component Unit Affiliate must maintain general liability insurance, property casualty insurance, commercial/business automobile liability insurance, and directors' and officers' liability insurance in no less than an amount deemed reasonable by the organization's board of directors or other governing board, unless the university agrees that such insurance is not needed.
- K. A Component Unit Affiliate must have in place conflicts of interest policies covering relationships both between the organization and its directors, officers and employees and also between such directors, officers and employees and persons doing business with the organization.
- L. Officers and staff members of a Component Unit Affiliate must be bonded in amounts determined to be appropriate by the Component Unit Affiliate's governing body.
- M. A Component Unit Affiliate must provide the university with the following items:
  1. Annually a copy of the organization's Form 990, except any portion that may be exempt from disclosure under federal statute or Internal Revenue Service regulations (public availability of the Form 990 on the internet shall be deemed to satisfy this requirement);
  2. Annually a copy of the audited financial statements and such other documents as the university may require from time to time and on a time table as determined by the university; and
  3. Copies of any amendments to the organization's articles of incorporation or bylaws.
- N. An organization that is recognized by the university as a Component Unit Affiliate may be eligible to receive:
  1. Use of university space, equipment, and administrative/financial services and staff in the performance of the organization's functions;
  2. The right to use the university's name or logo; and
  3. Such other rights, services or benefits that the university may authorize.



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All such arrangements shall be documented by written agreement between the university and the Component Unit Affiliate.

- O. Nothing in this policy restricts the authority of a university to enter into affiliation arrangements with outside organizations that are not considered “component units” under GASB 39, on such terms as the university deems appropriate.
- P. Each university shall strongly encourage diversity both to represent the broader community constituents as well as diverse subject matter expertise as may be appropriate to the management of the entity.