

Auditor of State Bulletin

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TO: School District and ESC Treasurers
Library Clerks\Treasurers
College and University Fiscal Officers
Independent Public Accountants

FROM: **Betty Montgomery**
Ohio Auditor of State

SUBJECT: **Auditor of State’s Position on GASB 39 – Determining
“Significance” and “Safe Harbor”**

Many Ohio governments, but especially colleges and universities, libraries, and public school districts, have affiliated fund-raising organizations, such as college and university foundations, band booster organizations, friends of the library etc., that typically are separate tax exempt entities. GASB Statement No. 39 requires governments to evaluate whether these affiliated fund-raising organizations should be reported as “component units” of their related governments¹. GASB 39 requires such inclusion if the affiliated organization meets all 3 of the following criteria:

- ❖ The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the...government, its component units, or its constituents.
- ❖ The...government...is entitled to, or has the ability to...access a majority of the economic resources received or held by the separate organization.
- ❖ The economic resources received or held by an individual organization that the specific...government...is entitled to, or has the ability to otherwise access, are **significant** to that...government.

Since GASB 39 does not define “significant” for purposes of this last criterion, this Bulletin is being issued to describe the Auditor of State’s position

¹ This bulletin does not apply to public libraries that issue their financial statements using the cash basis of accounting.

AOS regulatory accounting basis. However, this bulletin does apply to public libraries that issue their financial statements using an other comprehensive accounting basis (OCBOA). (See *Required Components of Financial Statements in Bulletin 2015-07* for a summary of the difference between the OCBOA vs. AOS regulatory accounting bases.) 2018 update

on significance and to create a “safe harbor” for Ohio Entities subject to this statement. In other words, if the affiliated organization’s resources are not considered “significant,” then they need not report the organization as a “component unit” of the related government and therefore, not subject to audit under GASB 39. The Auditor of State’s position on “significance” of resources in audits of governments that have affiliated fund-raising organizations described in GASB Statement No. 39 is as follows:

- The Auditor of State will consider the affiliated organization as significant for purposes of GASB 39 if its revenues\ net assets per its Form 990 as filed with the Internal Revenue Service exceed 5% of the primary government’s total all funds’ or activities’ revenues, or net assets.

Entities whose audits are performed by an Independent Public Accountant (IPA) would be expected to adopt this Bulletin’s safe harbor provisions or may develop their own professional criteria for determining “significance.” Entities that choose to develop their own criteria should document their methodology and follow appropriate accounting principles. Furthermore, if such entities use guidance deviating from this Bulletin, the entities and their IPAs should be prepared to justify such departures².

For entities audited by the Auditor of State, our office will consider approving “significance” waivers for entities. ~~Requests to consider such waivers should be directed to your Auditor of State audit team who will consult with the Auditor of State’s Accounting & Auditing Support group.~~

1-31-22 update:
Auditors should document their conclusions in the working papers after evaluating all factors & consult with the regional chief auditor for waiver determination.

In determining the fund-raising organization’s total revenues for purposes of this “safe harbor” calculation, the Auditor of State will allow the government to use one of two methods:

- Use the affiliated organization’s revenues\ net assets from its IRS Form 990 that corresponds with the government’s fiscal year, or
- Use a 5-year running average of revenues\ net assets of the government’s affiliated organization, which will help alleviate fund-raising spikes from affecting the calculation.

In order to use this “safe harbor” when determining significance, the government must not have been in fiscal watch or emergency pursuant to Chapters 118 or 3316, Ohio Rev. Code or a state of fiscal watch pursuant to Ohio Rev. Code §§ 3345.72 - .77 during any of the 5 annual periods ending with the current fiscal year under audit.

² The determination to include or not include the affiliated organization(s) for external financial reporting purposes under GASB 39 does not affect requirements, if any, established by the Auditor of State to audit the affiliated organizations.

GASB 39 is effective for financial statements for periods beginning after June 15, 2003. For public school districts, and colleges and universities with a June 30 fiscal year end, the effective date is for their fiscal year beginning July 1, 2003; for libraries, the effective date is the fiscal year beginning January 1, 2004.

Questions about this Bulletin may be directed to Accounting & Auditing Support, 1-800- 282-0370.

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