

**GASB Statement 39
2010**

The Governmental Accounting Standards Board (GASB) is a private, non-profit group that establishes accounting and financial reporting standards for government with the support of the Financial Accounting Foundation. In May 2002 the Governmental Accounting Standards Board (GASB) published Statement No. 39 that addressed the determination of whether certain organizations are component units. GASB Statement No. 39 is an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, issued in June 1991.

GASB 39 applies to financial reporting by primary governments and other stand-alone governments, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. It became effective for financial statements for periods beginning after June 15, 2003. For members of the Ohio Education Association and its bargaining representatives, this Statement provides important guidance to post-secondary education institutions which are served by a foundation. GASB 39 requires the governments and organizations identified above to discretely present financial information of component units in each of the financial statements addressed most recently in GASB 35 and, in so doing, allows for greater governmental financial transparency.¹ It was also designed to create more relevant and comprehensible information for citizens, legislative bodies, and investors and creditors (See GASB Concepts Statement No. 1, Objectives of Financial Reporting, paragraph 30).

GASB Statement 39 indicates that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

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

Component units that meet the criteria listed above should be discretely presented. Financial statements of the reporting entity should provide an overview of the entity that is sufficient to allow readers to distinguish between the primary government and its component unit(s). In some cases, component unit financial reporting will be presented in the financial statements of the primary government; in other cases, component unit financial reporting will

¹ The CBar Bulletin on GASB Statement 35, available at <http://www.ohea.org>, further explains the legal basis in Ohio for college and university financial reporting requirements.

be presented in the financial statements of a separate financial audit. In both cases, the statements are available in the financial audits published on the Auditor of State's website at <http://www.auditor.state.oh.us/auditsearch/search.aspx>. Most of these component units are foundations. While all of Ohio's four-year universities have at least one component unit, most of Ohio's two-year colleges have foundations; the only exceptions in the FY2009 financial audits are Central Ohio Technical College and Rio Grande Community College.

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