

## New Accounting Regulation Could Affect PTAs

As school districts begin the process of preparing their year-end reports, some PTAs may be contacted about a new accounting regulation known as Government Accounting Standards Board statement 39 (GASB 39). Under this new regulation, it may appear that some PTAs' financial information should be consolidated under the school or the district. If your principal or school superintendent feels that your PTA should be consolidated, he or she will ask a PTA to provide its financial information. In most cases, however, a PTA will be able to show that its financial information should not be consolidated by the school or the district.

The key question for PTAs regarding this regulation is whether a PTA should be identified as a "component unit" of the "primary government"—meaning the school district. In the case of a school district, a component unit can be a parent group, a booster club, or another organization which provides financial contributions that make a significant impact on the school or the school district. For example, if the school district budget is \$50 million and the PTA's support is \$1,000, the PTA would not be considered a component unit of the school. While \$1,000 may be significant to the PTA, it is a very small percentage of the total school funds and does not make a significant impact on the school's ability to function. Some parent groups may be considered a component unit; PTAs, by and large, would not be identified as such.

According to the GASB 39 regulations (which are effective for financial periods starting after June 15, 2003), organizations that are legally separate, tax-exempt entities and meet **all** of the following criteria should be considered component units.

1. **The regulation states:** 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.

**Explanation:** "Direct benefit" does not imply that there must be an actual transfer of resources from the school group during the year, but rather that the resources obtained or held are required ultimately to be used for the benefit of the school, its component units, or constituents.

This might be confusing to some local PTA leaders who may think that a PTA exists solely to financially support its school. Bylaws and other governing documents will assist in clarifying the true purpose, and will show that the organization has a larger purpose than only serving the school.

2. **The regulation states:** The primary government, or its component units, are entitled to, or have the ability to otherwise **access** a majority of the economic resources received or held by the separate organization.

**Explanation:** Access to economic resources does not necessarily mean control of the resources. The regulation provides some examples of what is meant by "access":

- The primary government has in the past received directly or indirectly a majority of the economic resources provided by the organization.
- The organization has in the past honored requests from the primary government to provide resources.

- One organization has the ability to influence the operating and financial decisions of the other, possibly by considerable representation on the governing board of the other organization or by agreement.
- The organization actively participates in the policy making processes, organizational priorities, and budgets of the other.

Some of these statements may be true for a few local PTAs. For most PTAs, however, there should be enough documentation to show that only on a periodic basis does the PTA use its resources for the school. Most importantly, a PTA's bylaws will make it clear that based on the purpose of the PTA, the resources for the organization are to be for the advocacy of all children.

Keep in mind that some overlapping of authority on the governing board is okay; when the majority of the PTA board is overlapping, however, the PTA is more likely to be seen as a component unit.

3. **The regulation states:** 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.

**Explanation:** This means that the resources provided are significant to the school district. Even if the local PTA does give some resources to the local school or school district, it should be an insignificant amount that is not essential to the overall budget of the district.

Being a component unit means that the legally separate, tax-exempt entity must meet all three of the criteria listed. Through documents such as bylaws and financial records, a PTA should have no trouble showing that it does not meet all the criteria listed above.

#### **What GASB 39 does not mean**

If, for some reason, it becomes necessary for a PTA to provide financial information to the school or school district for GASB 39, the PTA's financial information remains separate and distinct within the school's or school district's books. The PTA will remain responsible for producing financial reports and filing form 990 or 990-EZ if they meet the requirements. In other words, the PTA will remain a separate and distinct entity from the school district.

There may be other reasons a PTA needs to provide information to a school or school district. For example, if the school policy is to review an organization's information before it is allowed to use the school facilities, PTA will need to comply with the school's request if they wish to continue using the school facilities.

Keep in mind, if the PTA is legally required to file 990 or 990-EZ along with Schedule A, the PTA must provide these forms to anyone requesting the information. This is an IRS requirement and is completely separate from any GASB 39 requirements.

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