



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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AOS Technical Update – REVISED May 2012
Chapter 501B of the Code of Iowa:
Unincorporated Nonprofit Associations

Chapter 501B of the Code of Iowa provides for the “Revised Uniform Unincorporated Nonprofit Association Act” effective July 1, 2010.

According to the definitions at Chapter 501B.2 of the Code of Iowa:

“**Established practices**” means the practices used by an unincorporated nonprofit association without material change during the most recent five years of its existence, or if it has existed for less than five years, during its entire existence.

“**Unincorporated nonprofit association**” or “**association**” means an unincorporated organization consisting of two or more members joined under an agreement that is oral, in a record, or implied from conduct, for one or more common, nonprofit purposes. “*Unincorporated nonprofit association*” does not include any of the following:

- a. A trust.
- b. A marriage, domestic partnership, common law domestic relationship, civil union, or other domestic living arrangement.
- c. An organization formed under any other statute that governs the organization and operation of unincorporated associations.
- d. A joint tenancy or tenancy in common even if the co-owners share use of the property for a nonprofit purpose.
- e. A relationship under an agreement in a record that expressly provides that the relationship between the parties does not create an unincorporated nonprofit association.

This legislation results in a change in how independent auditors will evaluate potential component units pursuant to GASB Statements 14, 39 and 61 (effective fiscal year 2013 with earlier implementation encouraged). Prior to this legislation, independent auditors typically concluded an organization not formally established as a legally separate nonprofit corporation should be reported in the General Fund of the primary government.

Chapter 501B of the Code of Iowa now recognizes organizations as separate legal entities even if they are not formally established as a nonprofit corporation. Based on our review and evaluation, if significant, these entities will likely result in a discretely presented component unit presentation in the primary government’s financial reporting entity. If not significant, these entities would most likely result in a blended component unit.

The next page includes sample note disclosures for a Fire Association, one of the more common organizations in this category. This Office does not intend to restate for organizations with immaterial balances (determined based on General Fund planning materiality). Also, since this is a change due to legislation, this Office does not intend to report restatements, if any, as a material weakness. However, independent auditors will need to perform individual GASB reporting entity reviews and evaluations to determine and document proper presentation for each organization and circumstance.

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Sample Note Disclosures:

Discretely Presented Component Unit

Pursuant to Chapter 501B of the Code of Iowa, the City of Anywhere Fire Association (Association) is an unincorporated nonprofit association. The Association exists for charitable purposes in support of the City of Anywhere Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Anywhere Fire Department.

Blended Component Unit

Pursuant to Chapter 501B of the Code of Iowa, the City of Anywhere Fire Association (Association) is an unincorporated nonprofit association. The Association exists for charitable purposes in support of the City of Anywhere Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be blended. Based on these criteria, the Association is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. The Association is reported as part of the City and blended into the nonmajor governmental funds.