ASNPO
At a Glance

Section 4450 – Reporting Controlled and Related Entities by Not-for-Profit Organizations

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Section 4450 - *Reporting Controlled and Related Entities by Not-for-Profit Organizations*

Effective Date
Fiscal years beginning on or after January 1, 2012[1]

Scope

- This Section sets out standards for presentation and disclosure of controlled, significantly influenced and other related entities in a NPOs financial statements.
  - *Section 4449, Combinations by Not-for-Profit Organizations applies to a combination between not-for-profit organizations.*
  - *Section 1582, Business Combinations applies to acquisitions of a profit-oriented enterprise by a not-for-profit.*

Control

- The continuing power to determine an entity's strategic operating, investing and financing policies without the co-operation of others.
- Normally the holder of the right to appoint the majority of the voting members to an entity's board of directors would have the power to determine an entity's strategic policies and thus would be presumed to control the entity.
- If two organizations have the same board of directors it is presumed that one of the organizations controls the other.
- The presumption of control is only overcome if there is clear evidence control does not exist.
- Section 1591, *Subsidiaries*[2], in Part II of the Handbook provides further guidance on determining whether an organization controls a profit-oriented enterprise.
- In the case where the right to appoint the majority of the voting members of an NPO's board of directors is absent, the reporting enterprise would need to consider other aspects of its relationship with the NPO to determine whether other indicators of control are present, such as:
  - A significant economic interest in the other organization (see paragraphs 4450.10-.12);
  - Provisions in the other organization's charter / bylaws that cannot be changed without the reporting organization's consent and which limit the other organization to activities that provide future economic benefits to the reporting organization; or
  - The purpose of the other organization is integrated with the purpose of the reporting organization so that the two organizations have common or complementary objectives.
- In some cases a single indicator of control is sufficient for an organization to conclude that control exits, while in other cases more than one indicator may be required.

Presentation and disclosure of controlled not-for-profit organizations

- Each controlled NPO must be reported by the reporting organization in one of the following ways:
  - By consolidating the controlled organization in its financial statements;
  - By providing the disclosure in paragraph 4450.22; or
  - By providing the disclosure in paragraph 4450.26 when the controlled organization is one of a large number of individually immaterial organizations.
- Regardless of whether or not a controlled organization is consolidated the following must be disclosed:
  - The policy that is followed in reporting the controlled organization;
  - A description of the relationship with the controlled organization;
  - A clear and concise description of the controlled organization's:
    - Purpose;
    - Intended community of service;
    - Status under income tax legislation;
    - Legal form; and
  - The nature and extent of any economic interest that the reporting organization has in the controlled organization.

[1] Except as specified in paragraphs 4450.51-.52.
[2] See also our publication ASPE At a Glance: Section 1591 – *Subsidiaries*.

Presentation and disclosure of controlled not-for-profit organizations (continued)

- Controlled organizations that are similar may be grouped together for disclosure purposes.
- Any disclosure required by Section 4460, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*, must also be provided.
- An organization can follow different policies for reporting different controlled organizations; however, similar types of controlled organizations would be reported in the same manner.

Consolidated financial statements

- A NPO that prepares consolidated financial statements would follow the guidance in Section 1601, *Consolidated Financial Statements*[3].
- When consolidated financial statements are prepared:
  - The elements of the controlled organization's financial statement are combined with those of the reporting organization.
  - Transactions between the organizations are eliminated as well as inter-organization balances.
- When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be presented in the consolidated financial statements in accordance with Section 4400, *Financial Statement Presentation by Not-for-Profit Organizations*.
- When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.
- For consolidation purposes the accounting policies of each controlled organization must be adjusted to conform with the accounting policies of the reporting organization.

Controlled organizations that are not consolidated

- The following must be disclosed for each controlled NPO or group of similar controlled organizations that are not consolidated in the reporting organization's financial statements, <u>unless</u> the group of controlled organizations is made up of a large number of individually immaterial organizations (refer to paragraph 4450.26):
  - Total assets, liabilities and net assets at the reporting date;
  - Revenues (including gains), expenses (including losses) and cash flows from operating, financing and investing activities reported in the period;
  - Details of any restrictions, by major category, on the resources of the controlled organizations; and
  - Significant differences in accounting policies from those followed by the reporting organization.
- When the information disclosed above for the unconsolidated controlled organizations is not presented using the same accounting policies as the reporting organization any significant differences in the accounting policies would be disclosed.
- When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be disclosed.
- When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.

Control over a large number of individually immaterial organizations

- A group of controlled organizations may be excluded from both consolidation and the disclosure requirements of paragraph 4450.22 by the reporting organization <u>when</u>:
  - The group of organizations is made up of a large number of individually immaterial organizations; and
  - The reasons why the controlled organizations have not been consolidated nor included in the disclosure requirements of paragraph 4450.22 are disclosed by the reporting organization.

Presentation and disclosure of controlled profit-oriented organizations

- Each controlled profit-oriented enterprise must be reported by the reporting organization in one of the following ways:
  - By consolidating (in accordance with Section 1601[3]) the controlled enterprise in its financial statements; or
  - By accounting for its investment in the controlled enterprise using the equity method (in accordance with Section 3051, I*nvestments*[4], in Part II of the Handbook) and providing the disclosure required in paragraph 4450.32.

[3] See also our publication ASPE At a Glance: Section 1601 – *Consolidated Financial Statements*.
[4] See also our publication ASPE At a Glance: Section 3051 – *Investments*.

Presentation and disclosure of controlled profit-oriented organizations (continued)

- Regardless of whether or not a controlled profit-oriented enterprise is consolidated or accounted for using the equity method the following must be disclosed:
  - The policy that is followed in reporting the controlled enterprise; and
  - A description of the relationship with the controlled enterprise.
    - This description would include information on how the controlled entity's operations relate to / complement the reporting organization's operations.
    - Any disclosure required by Section 4460 must also be provided.
- The following must be disclosed for each controlled profit-oriented enterprise or group of similar controlled enterprises that are accounted for using the equity method:
  - Total assets, liabilities and shareholders' equity at the reporting date; and
  - Revenues (including gains), expenses (including losses), net income and cash flows from operating, financing and investing activities reported in the period.
- When investments are accounted for using the equity method additional disclosures set out in Section 3051[5] are required.
- When consolidated financial statements are presented the disclosure requirements set out in Section 1601[6] are required.
- The accounting policies of the controlled organization must be adjusted to conform with the accounting policies of the reporting organization.
- Controlled enterprises that are similar may be grouped together for disclosure purposes.
- An organization may choose to consolidate some controlled enterprises and account for others using the equity method; however, similar types of controlled enterprises would be reported in the same manner.

Joint venture

- An economic activity resulting from a <u>contractual arrangement</u> whereby two or more venturers jointly control the economic activity.

Presentation and disclosure of joint ventures

- Each interest in a joint venture must be reported by an organization in one of the following ways:
  - By accounting for its interest using the proportionate consolidation method (see paragraph 4450.02(g)); or
  - By accounting for its interest using the equity method and disclosing the information required by paragraph 4450.38.
- Regardless of whether an interest in a joint venture is reported using proportionate consolidation or the equity method the following must be disclosed:
  - The policy that is followed in reporting the interest; and
  - A description of the relationship with the joint venture.
- The following must be disclosed for each interest in a joint venture, or group of similar interests that are accounted for using the equity method:
  - The reporting organization's share of the joint venture's total assets, liabilities and net assets / shareholders' equity at the reporting date; and
  - The reporting organization's share of the joint venture's revenues (including gains), expenses (including losses), and cash flows from operating, financing and investing activities reported in the period; and
  - Significant differences in accounting policies from those followed by the reporting organization.
- An organization may follow different policies for reporting different interests in joint ventures.
- Interest in joint ventures that are similar can be grouped together for disclosure purposes.

Significant influence

- Over an entity is the ability to <u>affect</u> the strategic operating, investing and financing policies of the entity.
- Significant influence may occur in situations where it is concluded that control does not exist.

[5] See also our publication ASPE At a Glance: Section 3051 – *Investments*.
[6] See also our publication ASPE At a Glance: Section 1601 – *Consolidated Financial Statements*.

Significant influence (continued)

- The following factors may indicate the reporting organization has significant influence:
  - Representation on the board of directors;
  - Existence of economic interest;
  - Participation in the policy-making processes;
  - Material inter-entity transactions; or
  - Interchange of managerial personnel.
- When the reporting organization can temporarily affect the other entity's strategic process that is not considered to be significant influence for the purposes of this Section.

Disclosure of significantly influences not-for-profit organizations

- The following must be disclosed when the reporting organization has significant influence in another NPO:
  - A description of the relationship with the significantly influence organization;
  - A clear and concise description of the significantly influenced organization's:
    - Purpose;
    - Intended community of service;
    - Status under income tax legislation;
    - Legal form; and
  - The nature and extent of any economic interest the reporting interest has in the significantly influence organization.
- Significantly influenced organizations that are similar may be grouped together for disclosure purposes.
- Disclosure of any economic interest the reporting organization has in the significantly influenced organization would be provided.
- Any disclosure required by Section 4460 must also be provided.

Presentation of significantly influenced profit-oriented enterprises

- When a reporting organization has significant influence over a profit-oriented enterprise, the investment must be accounted for using the equity method in accordance with Section 3051[7].
- Any disclosure required by Section 4460 must also be provided.

Economic interest

- In another NPO exists if:
  - The other organization holds resources that must be used to produce revenue / provide services for the reporting organization; or
  - The reporting organization is responsible for the liabilities of the other organization.
- Possible indicators of economic interest:
  - Funds are solicited by the other organization in the name of and with the expressed / implied approval of the reporting organization, and substantially all of those funds are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion / direction;
  - Significant resources are transferred to the other organization by the reporting organization and the other organization's resources are held for the benefit of the reporting organization;
  - Significant functions must be performed by the other organization on behalf of the reporting organization which are integral in order for the reporting organization to achieve its objectives; or
  - Significant liabilities of the other organization are guaranteed by the reporting organization.
- The degree of economic interest can vary in significance.

Disclosure of economic interest

- The nature and extent of an organization's economic interest in another NPO over which it does not have control or significant influence must be disclosed.

[7] See also our publication ASPE At a Glance: Section 3051 – *Investments*.

Financial information at different dates

• In the case where the fiscal periods of the reporting organization and the other entity do not substantially coincide:
  • The financial information required to be disclosed in accordance with paragraphs 4450.22, .32, and .38 must be as at the other entity's most recent reporting date; and
  • The following information must be disclosed:
    • The reporting period covered by the financial information; and
    • The details of any events / transactions in the intervening period that are significant to the reporting organization's financial position or results of operations.
• When the reporting periods do not substantially coincide and consolidated financial statements are presented refer to Section 1601[8] for guidance.
• When the reporting periods of the reporting organization and the investee accounted for by the equity method are different refer to Section 3051[9] for guidance.

[8] See also our publication ASPE At a Glance: Section 1601 – *Consolidated Financial Statements*.
[9] See also our publication ASPE At a Glance: Section 3051 – *Investments*.

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