PSAB
At a Glance

Section PS 4250 – Reporting Controlled and Related Entities by Not-for-Profit Organizations

Section PS 4250 – *Reporting Controlled and Related Entities by Not-for-Profit Organizations*

Effective Date
Fiscal periods beginning on or after January 1, 2012

Scope

- This Section sets out standards for presentation and disclosure of controlled, significantly influenced and other related entities in a GNPO's financial statements.
- Section PS 2200, *Related Party Disclosures*, provides additional disclosure standards for situations where there are transactions with related parties.

Control

- The power of a public sector entity to govern the financial and operating policies of another entity with expected benefits or risk of loss the public sector entity from the other's activities (see Section PS 1300).
- 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.
- Paragraphs .18-.24, of Section PS 1300, *Government Reporting Entity*[1], provides further guidance on determining whether an organization controls another organization.
- In the case where the right to appoint the majority of the voting members of an GNPO's board of directors is absent, the reporting organization would need to consider other aspects of its relationship with the GNPO to determine whether other indicators of control are present, such as:
  - A significant economic interest in the other organization (see paragraphs PS 4250.10-.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 not-for-profit organization 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 PS 4250.22; or
  - By providing the disclosure in paragraph PS 4250.26 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.
- Controlled organizations that are similar may be grouped together for disclosure purposes.
- An organization can follow different policies for reporting different controlled organizations; however, similar types of controlled organizations would be reported in the same manner.

[1] See also our publication PSAB At a Glance: Section PS 1300 – *Government Reporting Entity*.

Consolidated Financial Statements

- A GNPO that prepares consolidated financial statements would follow the guidance in Sections PS 2500, *Basic Principles of Consolidation* and PS 2510, *Additional Areas of Consolidation*[2].
- 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 PS 4200, *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 not-for-profit organization or group of similar controlled organizations that are not consolidated in the reporting organization's financial statements, unless the group of controlled organizations is made up of a large number of individually immaterial organizations (refer to paragraph PS 4250.26):
  - 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 organization 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 PS 4250.22 by the reporting organization when:
  - 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 PS 4250.22 are disclosed by the reporting organization.

Presentation and Disclosure of Controlled Profit-Oriented Enterprises

- Each controlled profit-oriented enterprise must be reported by the reporting organization in one of the following ways:
  - By consolidating (in accordance with Sections PS 2500 and PS 2510[2]) the controlled enterprise in its financial statements; or
  - By accounting (in accordance with Section PS 3070, *Investments in Government Business Enterprises*[3]) for its investment in the controlled enterprise using the modified equity method and providing the disclosure required in paragraph PS 4250.32.
- Regardless of whether or not a controlled profit-oriented enterprise is consolidated or accounted for using the modified 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, which would include information on how the controlled entity's operations relate to / complement the reporting organization's operations.

[2] See also our publication PSAB At a Glance: *Consolidation*.
[3] See also our publication PSAB At a Glance: Section PS 3070 - *Investments in Government Business Enterprises*.

Presentation and Disclosure of Controlled Profit-Oriented Organizations (Continued)

- The following must be disclosed for each controlled profit-oriented enterprise or group of similar controlled enterprises that are accounted for using the modified 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 modified equity method additional disclosures set out in Section PS 3070[3] are required.
- When consolidated financial statements are presented the disclosure requirements set out in Sections PS 2500 and PS 2510[2] 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 consolidated some controlled enterprise and account for others using the modified equity method; however, similar types of controlled enterprises would be reported in the same manner.

Joint Venture

- An economic activity resulting from a contractual arrangement whereby two or more venturers share control of the economic activity.
  - **Shared control** occurs when two or more entities are bound by a contractual arrangement that specifies the agreed sharing of the ongoing power to determine financial and operating policies (see the characteristics of shared control in Section PS 3060, *Interests in Partnerships*)

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 in accordance with Section PS 3060, *Interests in Partnerships*[4]; or
  - By accounting for its interest using the modified equity method and disclosing the information required by paragraph PS 4250.38.
- Regardless of whether an interest in a joint venture is reported using proportionate consolidation or the modified 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 modified equity method:
  - The reporting organization's share of the joint venture's total assets, liabilities and net assets / shareholders' equity at the reporting date;
  - 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 affect 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.
- 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 this is not considered to be significant influence for the purposes of this Section.

[2] See also our publication PSAB At a Glance: *Consolidation*.
[3] See also our publication PSAB At a Glance: Section PS 3070 - *Investments in Government Business Enterprises*.
[4] See also our publication PSAB At a Glance: Section PS 3060 – *Interest in Partnerships*.

Disclosure of Significantly Influenced Not-For-Profit Organizations

- The following must be disclosed when the reporting organization has significant influence in another not-for-profit organization:
  - A description of the relationship with the significantly influenced 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 influenced 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.

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 modified equity method in accordance with Section PS 3060[4].

Economic Interest

- In another not-for-profit organization 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 not-for-profit organization over which it does not have control or significant influence must be disclosed.

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 PS 4250.22, .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 PS 2500[2] for guidance.
- When the reporting periods of the reporting organization and the investee accounted for by the modified equity method are different refer to Section PS 3070[3] for guidance.

[2] See also our publication PSAB At a Glance: *Consolidation*.
[3] See also our publication PSAB At a Glance: Section PS 3070 - *Investments in Government Business Enterprises*.
[4] See also our publication PSAB At a Glance: Section PS 3060 – *Interest in Partnerships*.

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