Approved Arthur D. Barnhart Date 5/27/04

TITLE: REPORTING AND DISCLOSURES OF RELATED ORGANIZATIONS

The financial statements for all Colorado institutions of higher education shall disclose the existence, relationships, transactions, the role and mission of all related foundations, corporations, and jointly governed organizations as defined by GASB Statement No. 14 The Financial Reporting Entity as amended by GASB Statement No. 39 Determining Whether Certain Organizations are Component Units. The purpose of this standard is to provide a summary of GASB statements 14 and 39. Institutions are responsible for ensuring that they comply with all the provision of the GASB statements.

In relation to the institution's financial reporting, the institution must determine whether the foundations, corporations, and jointly governed organizations are:

- Component Units, include two types:
  - Blended
  - Discretely Presented
- Related Organizations and Parties
- Joint Ventures
- Jointly Governed Organizations

The definition, process of determination and resulting reporting requirements are set forth in the following sections. In addition, the attachment includes a flow chart for assisting in the determination process.

Component Units

Component units are legally separate organizations for which ***either***:

- The governing board of the institution are financially accountable (defined below);
- The nature and significance of their relationship is such that exclusion would cause the institution's financial statements to be misleading (for further definition see GASB Statement No. 14 paragraphs 39-41, as amended by GASB Statement No. 39 paragraph 6); or
- The organizations is closely related to or financially integrated with the institution. Financial integration is exhibited through policies, practices or organizational document of either entity.

Additionally, certain other organizations are component units if ***all*** of the following criteria are met (referred to hereafter as "Additional GASB 39 Criteria"):

- They are a legally separate, tax-exempt organization.
- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the institution, its component units or its constituents.
- The institution, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization. Access is broader than control and is demonstrated by the ability not the occurrence in a given year (for further definition see GASB Statement No. 39 paragraph 5).
- The economic resources received or held by the *individual* organization that the institution, or its component units, is entitled to, or has the ability to otherwise access, are significant to the institution.

Financially accountable results if ***either*** of the following two criteria is met:

1. The institution appoints a voting majority of the organization's governing body (including where the institution's officials serve on the organization's governing body by law); and

   a. The institution has the ability to impose its will on that organization (for further definition see GASB Statement No. 14 paragraphs 25–26); or

   b. The organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the institution (for further definition see GASB Statement No. 14 paragraphs 27–33).

2. The organization is fiscally dependent on the institution (for further definition see GASB Statement No. 14 paragraphs 16–18).

Once it is determined that an organization is a component unit, the institution must determine what type of component as follows.

Blended Component Units are those component units that did not meet the Additional GASB 39 Criteria and also meets ***any one*** of the following criteria:

- The component unit's governing body is substantively the same as the governing body of the institution.
- The component unit provides services entirely, or almost entirely, to the institution.
- The component unit exclusively, or almost exclusively, benefits the institution even though it does not provide services directly to it (for further definition see GASB Statement No. 14 paragraphs 53).

A Blended Component Unit is required to be incorporated into the institution's financial statements, including disclosures, in a manner similar to the rest of the institution.

Discretely Presented Component Units are those components that either met the Additional GASB 39 Criteria or does not meet the definition of a Blended Component Unit above.

Financial information for Discretely Presented Component Units is separately included in the institution's financial statements in accordance with Higher Education Standard No. 17.

Related Organizations and Parties

A Related Organization is defined, by GASB Statement No. 14, as an organization for which the institution appoints the majority of the board but for which it is ***not*** financially accountable.

Related Parties are defined as organizations that are affiliated with the institution (see FASB Statement No. 57), but for which concepts of accountability in GASB Statement No. 14 are not applicable.

The institution's financial statements should include disclosures for Related Organizations and Parties.

Disclosures for Related Parties should include the following narrative information:

a. Description of the relationship between the affiliate and the organization.

b. Information on the major sources of the organization's revenues.

c. Information on the support, direct and indirect, provided by the organization to the institution.

d. Information on the support, direct and indirect, provided by the institution to the organization.

Disclosures for Related Organizations should include the above disclosures for Related Parties and the following narrative information:

a. Description of the appointing process for the officers of the organization.

b. Description of how many employees of the institution are or can be officers of the organization.

c. Description of any debt the organization has incurred to provide buildings, equipment, or other goods or services for the institution's use.

d. Description of the amount of cash, investments and other assets owned by the organization.

e. Information on where a copy of the most recent financial statements of the organization can be obtained.

Joint Ventures

A Joint Venture is a multi-governmental, contractual arrangement that is governed by representatives from each of the institutions or other governmental entities that created the organization, ***and*** the participants retain ***either*** an ongoing financial interest ***or*** an ongoing financial responsibility (defined as follows).

Ongoing financial interest is an equity interest or any other arrangement that allows the participants to have access to a joint venture's resources. Access to the joint venture's resources can occur:

- *Directly* when the joint venture pays its surpluses to the participants, ***or***
- *Indirectly* when the joint venture undertakes projects of interest to the participants (for further definition see GASB Statement No. 14 paragraph 70).

Ongoing financial responsibility exists if ***either***:

- The participants are obligated in some manner for the debts of the joint venture, whether expressed or implied (for further definition see GASB Statement No. 14 paragraph 33)
- The joint venture's existence depends on continued funding by the participants, which can be evidenced by either purchasing of the joint venture's good or ser vices for the participant's own use or by subsidizing the provision of the joint venture's services to the

participant's constituents (for further definition see GASB Statement No. 14 paragraph 71).

The institution's financial statements should include the following narrative disclosures for Joint Ventures:

a. Description of the multi-governmental arrangement and the composition of its governing board.

b. Description of the institution's ongoing financial interest (including any equity interest) ***or*** ongoing financial responsibility.

c. Information to indicate whether the joint venture is accumulating significant financial resources or experiencing fiscal stress that may result an addition financial benefit or burden to the institution in the future.

d. Information on the support, direct and indirect, provided by the organization to the institution.

e. Information on the support, direct and indirect, provided by the institution to the organization.

f. Information on where a copy of the most recent financial statements of the joint venture can be obtained.

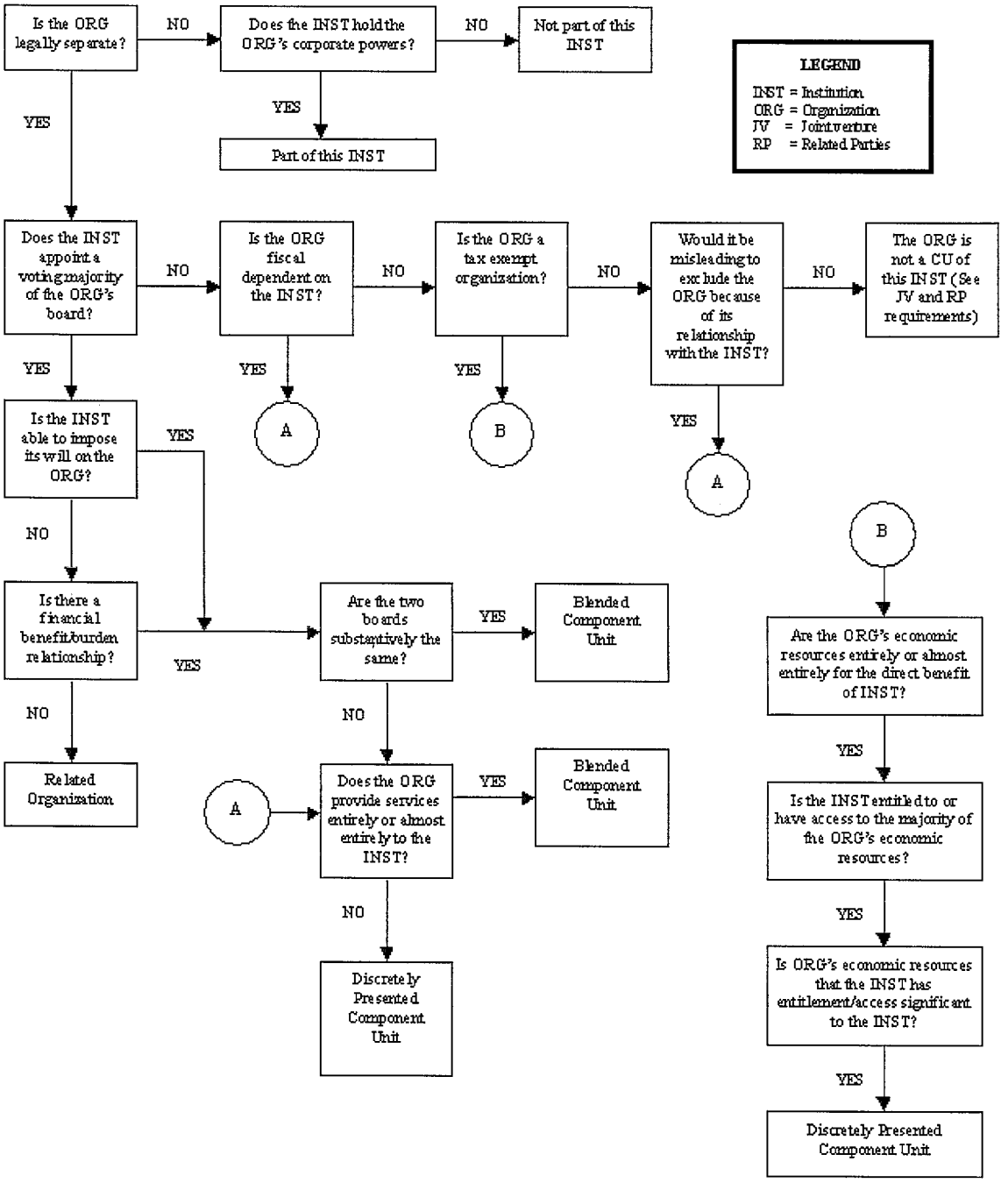
Jointly Governed Organizations

A Jointly Governed Organization is a multi-governmental arrangement that is governed by representatives from each of the institutions or other governmental entities that created the organization, ***but is not*** a joint venture because the participants retain neither an ongoing financial interest nor an ongoing financial responsibility.

The institution's financial statements should include the following narrative disclosures for Jointly Governed Organizations:

a. Description of the multi-governmental arrangement and the composition of its governing board.

b. Information on the support, direct and indirect, provided by the organization to the institution.

c. Information on the support, direct and indirect, provided by the institution to the organization.

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