



June 8, 2012

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Federal Reporting Entity—Draft Illustrations Tab C¹**

MEETING OBJECTIVES

- To consider draft illustrations applying the standards of the Exposure Draft *Identifying and Reporting upon Organizations to Include in General Purpose Financial Reports*.

The objective for the June Board meeting is to consider the Draft Illustrations that will be issued as an appendix to the Exposure Draft (ED) *Identifying and Reporting upon Organizations to Include in General Purpose Financial Report*.

BRIEFING MATERIAL

The transmittal memorandum includes a discussion of issues and recommendations beginning on page 2 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page. In addition, the following item is attached:

- Attachment 1: Draft Illustrations

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

The Board reviewed illustrations in April and asked staff to consider the following concerns and suggestions:

1. Guard against the possibility that the illustrations will be overly relied upon in practice and cause preparers and auditors to reach inappropriate conclusions.
2. Avoid appearing to reach bright line conclusions in more complex cases.
3. Include key facts and circumstances and describe how entities might reach a conclusion based on the key facts and circumstances provided.
4. Use wording that aligns closely with the exposure draft and the flowchart.
5. Include entities in the illustrations to cover the variety of circumstances in the draft standards.

STAFF ANALYSIS AND RECOMMENDATIONS

Staff conferred with Mr. Dacey regarding the concern that the illustrations could be overly relied upon. Improvements were included in the preamble, the headings, and the wording of the tentative conclusion. In addition, to address the concern regarding bright line conclusions, wording regarding consideration of “other factors” and the application of “professional judgment” by the preparer and the auditor were included so that readers would be reminded of the brevity of the analysis presented in illustrations in contrast to what may be needed in actual practice. With Mr. Dacey’s input, we believe the revisions appropriately guard against this concern. (Items 1 and 2 above)

Question 1: Are the revisions sufficient to mitigate member concerns?

The basis for each tentative conclusion is provided using wording that aligns closely to the exposure draft. This ensures the illustrations have a consistent structure that aligns with the flowchart. In addition, the summary table has been improved.

Regarding the table, staff is concerned that the table appears to oversimplify the decision making process. For example, in some cases, those illustrating inclusion based on control, there is not enough information given to assert that an “entity” (as opposed to property) is – in substance - owned or not; yet the table format may raise the expectation of a “yes” or “no” entry in the column. Further, “misleading to exclude” is a matter for judgment and staff has avoided illustrating a “yes” answer. (Items 3 and 4 above)

Question 2: Do members have suggestions regarding the overall structure and clarity of the tentative conclusions sections of the illustrations?

Question 3: Do members wish to retain the summary table? If so, do members believe it is appropriately structured and presents the right level of explanation?

Staff revised the 15 illustrative entities as needed to ensure coverage of:

1. Each inclusion principle (including the exception for non-federal organizations receiving federal financial assistance) with variety among the control indicators met
2. Two federally funded research and development centers (a core and a non-core)
3. An intervention
4. A government-sponsored enterprise
5. A financially independent entity (quasi-governmental)
6. Economically dependent entity to be excluded
7. An apparent public-private partnership

Among the 15 illustrations, four are not included, five are included as non-core, and six are included as core entities. Staff has not included an illustration where only one such entity exists. (Item 5 above)

Question 4: Do members wish to expand the illustrations to cover additional types of entities?

NEXT STEPS

Staff plans to address any concerns identified by the Board. After making revisions based on Board comments, we will seek a review by our general counsel and GAO's editorial staff.

We have revised our goal of completing the ED by the August 2012 meeting due to the consideration of significant changes to the non-core entity disclosures. Completing the ED by the October 2012 meeting is the new goal.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov.

QUESTIONS FOR THE BOARD

Question 1: Are the revisions sufficient to mitigate member concerns?

Question 2: Do members have suggestions regarding the overall structure and clarity of the tentative conclusions sections of the illustrations?

Question 3: Do members wish to retain the summary table? If so, do members believe it is appropriately structured and presents the right level of explanation?

Question 4: Do members wish to expand the illustrations to cover additional types of entities?

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Preamble

These illustrations demonstrate how the provisions of the proposed standards could be applied to organizations given simplified hypothetical circumstances. They are for illustrative purposes and are nonauthoritative. They do not:

1. represent actual entities.
2. provide a thorough analysis of all the facts and circumstances that are needed to reach a conclusion in practice.
3. indicate a preferred method of analyzing facts and circumstances.
4. substitute for the application of professional judgment to actual facts and circumstances.

These illustrations follow the sequence presented in the decision flowchart in Appendix B of the ED, *Identifying and Reporting upon Organizations to Include in the General Purpose Federal Financial Reports*. All tentative conclusions are based primarily on the hypothetical circumstances presented. In most illustrations the tentative conclusions refer to consideration of other factors by management and the auditor. This reference is included to emphasize that, in practice, consideration of all relevant facts and circumstances would be needed to reach conclusions. The reader should assume that the general reference to ‘other factors’ means that such factors, in aggregate, supported the conclusions implied by the necessarily limited assumed facts and circumstances presented in each illustration.

Application of the proposed standards to actual entities would require consideration of the circumstances specific to each entity and the exercise of professional judgment. Although the limited assumed facts and circumstances presented in the illustrations may be similar to situations at a particular reporting entity, they should not be used in practice as a substitute for a complete and thorough consideration of all of the relevant facts and circumstances, which may lead to a conclusion different from the tentative conclusions in these illustrations. For example, the illustrations make certain assumptions that, in practice, require judgment of the specific facts and circumstances to make appropriate determinations.

All of the illustrations discuss administrative assignments to component reporting entities where there is only one component reporting entity relationship described. In reality, more than one component reporting entity may have a relationship with the illustrative entity. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

ABC Department

(In the Budget—Core Entity)

Assumed Facts and Circumstances

Congress established ABC Department (ABC), a federal organization, to promote entrepreneurship and innovation as a means to address national economic and environmental challenges. Provisions that govern ABC are generally prescribed in legislation and ABC accomplishes its mission through various bureaus, grants to research institutions, and contracts with universities and not-for-profit organizations.

The executive leadership of ABC consists of a secretary, deputy secretary, and three assistant secretaries. The President nominates and the Senate confirms each of these officials. These officials serve at the pleasure of the President. ABC is subject to all laws and regulations applicable to executive branch agencies.

ABC relies on appropriated public funds to conduct its mission and is included in the *Budget of the United States Government: Analytical Perspectives – Supplemental Materials schedule Federal Programs by Agency and Account* (Budget). The President and the Congress consider ABC’s requests for resources and determine the amount that should be budgeted to provide services. Furthermore, ABC is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumed facts and circumstances, management determined and the auditor concurred that ABC should be included in the government-wide GPFFR because it (1) meets the first of the three inclusion principles (being listed in the budget) and (2) is not a non-federal organization receiving federal financial assistance.

Classification as Core or Non-core

Further, because it is listed in the budget, ABC is presumed to qualify as a core entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts contradicting the assumption that ABC is a core entity. As a core entity, ABC should be consolidated in the government-wide GPFFR.

Administrative Assignments

The assumed facts and circumstances do not indicate ABC should be consolidated with another component reporting entity. Further consideration of ABC’s relationships with other core entities would be needed to determine if ABC has been administratively assigned to another component reporting entity. Further consideration of would also be needed to identify any core or non-core entities administratively assigned to ABC.

Epsilon Corporation

(In the Budget – Core Entity)

Assumed Facts and Circumstances

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon’s activities. Epsilon is led by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. The Congress monitors Epsilon’s activities by conducting hearings on Epsilon’s programs and requesting Government Accountability Office (GAO) and Office of Inspector General (OIG) audits.

Epsilon is listed in the Budget and receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the entity may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

Epsilon is required to periodically report to the Congress and the President on matters such as:

- Program performance results
- Financial position, results of operations, and cash flows
- Adequacy of internal controls and systems

Furthermore, Epsilon is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumed facts and circumstances, management determined and the auditor concurred that Epsilon Corporation should be included in the government-wide GPFFR because it meets the first of the three inclusion principles (being listed in the budget) and is not a non-federal organization receiving federal financial assistance.

Classification as Core or Non-core

Further, because it is listed in the budget, Epsilon is presumed to qualify as a core entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that Epsilon is a core entity. As a core entity, Epsilon should be consolidated in the government-wide GPFFR

Administrative Assignments

There is no information included in the assumed facts and circumstances indicating that Epsilon should be consolidated with another component reporting entity. Further consideration of Epsilon’s relationships with other core entities would be needed to determine if Epsilon has been administratively assigned to another component reporting entity or has had core entities administratively assigned to it. Also, further consideration

Attachment 1: Draft Illustration Guide

- 1 would be needed to identify any non-core entities administratively assigned to Epsilon for
- 2 which disclosures are needed.

Sigma Association

(Control based on Persuasive Indicator - Non-core Entity (financially independent))

Assumed Facts and Circumstances

The Congress and the President established Sigma Association (Sigma) as a not-for-profit, non-taxpayer funded organization to market innovative U.S. agricultural technology worldwide and to respond to any claims of damage arising from new technology. The fundamental purpose of the corporation is specified in legislation and its mission statement is “to open new markets for U.S. agricultural technology through a cooperative marketing strategy and risk-sharing approach for market participants.”

Sigma is led by a ten-member board of directors. Five members are appointed by the President and confirmed by the Senate. Four members are elected by industry members. The Secretary of Agriculture (or his/her designee) serves as a voting ex-officio member of the board. No more than three of the appointed members may be from the same political party. Board members serve seven-year terms and can only be removed for cause (meaning they may not be removed for policy decisions). Also, Congress monitors Sigma’s activities by conducting hearings on Sigma’s programs and requesting GAO audits.

Sigma is financed by fees imposed on industry members. Sigma’s board of directors must establish an annual budget and legislation limits how Sigma can invest proceeds from fees and, to help ensure that Sigma remains financially viable, legislation requires Sigma to have a reserve fund. The board of directors determines the level of the reserve fund after considering input from industry members. If Sigma encounters a shortfall, it may borrow a limited amount from the U.S. Department of the Treasury (Treasury), but any additional funding requirements must be obtained from future fee assessments on industry members.

Tentative Conclusions

Based on the assumed facts and circumstances, and other considerations, management determined and the auditor concurred that Sigma should be included in the government-wide GPFRR because Sigma meets the third inclusion principle (control with expected benefits or risk of loss). Indicators that the federal government can control Sigma are that the Congress and the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

Classification as Core or Non-core

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Sigma should be included as a non-core entity because it is a financially independent entity. Management and the auditor considered the assumed facts and circumstances presented below in the aggregate, weighed them against other considerations, and used professional judgment.

Evidence suggesting that it is non-core includes:

1. Taxpayer support is not provided for ongoing operations.

- 1 2. The corporation is relatively financially independent because it is primarily funded
2 from a source other than appropriations. Its budget and fees are not subject to
3 Congressional or Presidential approval.
- 4 3. Seven-year terms for directors and their not being subject to removal for policy
5 decisions indicate a higher degree of autonomy than executive branch appointees.
6 This governance structure vests greater decision making authority with the board
7 while insulating it from political influence. As a result, Congressional and
8 Presidential oversight is less direct since they are not involved in decisions such as
9 the level of reserves needed.
- 10 4. While Sigma is permitted to borrow from the Treasury, such borrowing is limited.
11 This means risks to the taxpayer are limited. Instead, Sigma is expected to
12 maintain its operations and meet its liabilities with revenues received from sources
13 outside of the federal government.

14 Evidence suggesting that Sigma may be core includes:

- 15 1. Accountability rests with the President and the Senate who appoint and confirm,
16 respectively, members of the board of directors as well as establish organizational
17 authorities in legislation.
- 18 2. Sigma provides a service that is not available from market participants. Its fees are
19 adjusted to recover losses rather to respond to market influences. Hence, its fees
20 are not market based.

21 Administrative Assignment

22 Because each non-core entity must be reported by at least one core entity, management
23 considered whether Sigma has been administratively assigned to the Department of
24 Agriculture. Evidence suggesting administrative assignment to the Department of
25 Agriculture includes that the secretary serves as an ex-officio member of the board.

26 As a result, management determined and the auditor concurred that the Department of
27 Agriculture should disclose information regarding Sigma in its GPFFR. If Sigma is also
28 administratively assigned to other component reporting entities then those entities should
29 also consider the need to disclose information in their GPFFR.

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Scholars University

(Not Included)

Assumed Facts and Circumstances

The Congress and the President chartered Scholars University as a small, private, independent, not-for-profit educational institution and legislation describes the mission of the university. The legislation also indicates that the university is not an instrumentality of the federal government and that the federal government does not assume any liabilities of the university.

Scholars University is governed by a 29-member board of trustees. The Secretary of Education is an ex-officio member of the board and the remaining members are elected by the board for three-year terms. The board controls and directs the university's affairs such as determining the university's tuition and fee structure, adding or removing colleges within the university, and establishing new research institutions.

To support its mission, Scholars University receives most of its revenue from student tuitions and fees, and private contributions. The university receives appropriations to support some of its academic programs. The university is listed in the Budget under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

Tentative Conclusions

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR. Although listed in the Budget, management asserts that Scholars University is a non-federal organization receiving federal financial assistance in the form of a grant. Any non-federal organization listed in the budget should be assessed against the other two principles. So, management must determine if the other inclusion principles are met or if it would be misleading to exclude the university.

The initial analysis is summarized below:

- Ownership – The Congress and the President chartered Scholars University as a private, independent entity. There is no evidence that the federal government has an ownership interest in the university.
- Control - Based on the assumptions presented, the persuasive indicators of control have not been met. While the federal government chartered Scholars University, the standards provide that further indicators of control must be present to conclude that the entity is controlled. The remaining persuasive indicators—appointing or removing a majority of the governing board members, establishing financial and operating policies, and dissolving the university and having access to its assets—are not met. The available facts and circumstances suggest that Scholars is not controlled. [Note, however, for brevity this illustration does not present an analysis of indicators of control that in the aggregate may reveal that Scholars is controlled. Such an analysis may be needed in practice.]

Attachment 1: Draft Illustration Guide

- 1 • Misleading to exclude - Scholars University is a small not-for-profit that is
2 listed in the Budget solely as a program within the Department of
3 Education. Management determined and the auditors concurred that it is
4 both quantitatively and qualitatively immaterial. Also, there were no other
5 facts and circumstances that would suggest that Scholars University should
6 be included in the GPFFR. As a result, it would not be misleading to
7 exclude.
- 8 Based on the assumed facts and circumstances and other considerations, management
9 determined and the auditor concurred that Scholars University should not be included in
10 the government-wide GPFFR.

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Education Research Institute (ERI)

(Control Based on Persuasive Indicator – Core Entity)

Assumed Facts and Circumstances

The purpose of the ERI is to assist state and local officials in making informed decisions regarding effective education methods. ERI was established by the Congress and the President through a public law specifying the organization's:

- status as a tax exempt not-for-profit,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The public law establishing ERI requires reauthorization of its operations every five years. If the Congress and the President do not authorize continued operation, ERI must cease operations and distribute its net assets to a successor organization designated by the federal government. If ERI is unable to satisfy its liabilities prior to dissolution, the federal government will assume its liabilities.

ERI is governed by a seven-member board of directors; five of whom are voting. Two members are specific federal officials within the Department of Education who serve part-time and do not have voting rights. The remaining five serve full-time and are appointed by the Association of Local School Boards and serve six-year terms. One of these five members is elected by the board to serve as chairperson.

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the U.S. Treasury to the ERI trust fund. An annual transfer to ERI is not listed in the Budget but is included in the Department of Education's Congressional Budget Justification. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI may fund up to 25% of its annual budget through donations but may not use federal funds to solicit donations.

The Department of Education approves the ERI annual budget. The department also reports information related to ERI activities in its annual performance report and Congressional Budget Justification.

ERI must provide annually an audited financial report to Department of Education and relevant Congressional committees.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that ERI should be included in the government-wide GPFFR because the third inclusion principle (control) is met. A persuasive indicator of control exists because the federal government can unilaterally dissolve the organization and have access to its assets and responsibility for its liabilities.

1 Classification as Core or Non-core

2 For this illustration, management determined and the auditor concurred that, based on the
3 assumed facts and circumstances as well as other considerations not described in the
4 illustrations, ERI should be included as a core entity. In arriving at this conclusion,
5 management and the auditor considered the assumed facts and circumstances presented
6 below in the aggregate and, finding no other facts that in the aggregate contradict these,
7 used professional judgment to determine that ERI is a core entity.

8 Evidence suggesting that ERI is a core entity includes:

- 9 1. It is primarily financed by taxpayers.
- 10 2. Taxpayers have assumed the risks associated with ERI's liabilities.
- 11 3. The purpose of ERI is to assist state and local officials by providing consultation
12 services on a non-market basis.
- 13 4. ERI's annual budget is approved by the Department of Education and the
14 Department also provides information related to ERI activities in its annual
15 performance report and Congressional Budget Justification. These activities show
16 that elected officials, acting with and through politically appointed officials, make
17 decisions regarding ERI's budget.

18 Evidence suggesting that ERI is a non-core entity includes:

- 19 1. A majority of the members of the board of directors is appointed by non-federal
20 officials.
- 21 2. ERI is able to access donations to sustain some of its operations.

22 Administrative Assignment

23 The Department of Education should consider whether or not ERI is administratively
24 assigned to it. Evidence that indicates ERI is administratively assigned includes
25 Education's participation in ERI's budgetary process and inclusion of information regarding
26 ERI in its own Congressional Budget Justification. Having considered the above
27 information and other available evidence, the Department of Education determined and its
28 auditor concurred that it should consolidate ERI, which is a core entity, in its GPFRR.

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Mediation Corporation

(Control based on Indicators in the Aggregate – Non-core Entity)

Assumed Facts and Circumstances

Mediation was established as a 501(c)(3) non-member not-for-profit organization through a public law specifying the organization's:

- status and operating location,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The purpose of Mediation is to ensure that low-income individuals have access to mediation services to resolve non-criminal legal disputes. An assigned duty is to develop and maintain a network of state and local government organizations to deliver services financed by grants. Network members may raise funds to finance delivery of services through taxes, donations, and other grants without limitation.

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill vacancies. A panel of local government officials participating in the network selects new members of the governing board from among the nominees. No more than seven members may be affiliated with the same political party. The members elect their chairperson from among the members. The President appoints the executive secretary and the Senate confirms appointment. The executive secretary's term is fifteen years during which the President may only remove the appointee for cause.

Mediation is financed by an annual appropriation, interest earnings, and grants. Grants must not finance more than 20% of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U. S. Government.

An annual appropriation is provided in the federal budget for "Grants to the Mediation Corporation." The appropriation is made to the Department of Justice which transfers budget authority to Mediation. Mediation manages its cash balances similar to other not-for-profits and may retain any interest earned on unspent funds. In addition, it may apply for and receive grants from any grant making organization—public or private—subject to the 20% limitation.

The public law creating Mediation requires it to make annual audited financial reports publicly available. Mediation also files annual tax returns with the Internal Revenue Service. Furthermore, Mediation is considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide GPFRR, management considered the remaining inclusion principles—ownership and

1 control. It is unclear, based on the assumed facts and circumstances, whether Mediation is
2 owned by the federal government. Therefore, management must consider the control
3 indicators to determine if the third inclusion principle is met. None of the persuasive
4 indicators of control are present based on the assumed facts and circumstances so
5 considerable professional judgment is required to determine whether – in the aggregate –
6 the indicators provide evidence of control. The indicators suggesting federal government
7 control over Mediation include:

- 8 1. The federal government provides significant input regarding selection of the entity's
9 governing board members since a selection can only be made from among
10 candidates identified by the President.
- 11 2. The President appoints a key executive – the executive secretary – and may
12 remove him or her for cause.
- 13 3. Federal law restricts Mediation's capacity to generate revenues since only
14 appropriations, interest earned, and grants may be used. In addition, only 20% of
15 its annual needs may be met through grants.
- 16 4. The U.S. Attorney General approves the annual budget.
- 17 5. Federal law requires annual audited financial reports.
- 18 6. Federal law directs Mediation to work through a network of government agencies
19 to provide services.

20 Based on the assumed facts and circumstances and other considerations, and using
21 professional judgment, management determined and the auditor concurred that Mediation
22 should be included in the government-wide GPFFR.

23 Classification as Core or Non-core

24 For this illustration, management determined and the auditor concurred that, based on the
25 assumed facts and circumstances as well as other considerations not described in the
26 illustrations, Mediation should be included as a non-core entity. In arriving at this
27 conclusion, management and the auditor considered the assumed facts and
28 circumstances presented below in the aggregate and, finding no other facts that in the
29 aggregate contradict these, used professional judgment to determine that Mediation is a
30 non-core entity.

31 Evidence suggesting that Mediation is a core entity includes:

- 32 1. It is primarily funded by taxpayers.
- 33 2. Elected officials determine Mediation's budget, because at least 80% of its funding
34 is appropriated to Justice. In addition, an appointed federal official, the U.S.
35 Attorney General, approves Mediation's annual budget.

36 Evidence suggesting that Mediation is a non-core entity includes:

- 37 1. Members of its governing body are selected by non-federal officials, serve longer
38 terms than political appointees, must include members from different political
39 parties, and may only be removed for cause. These conditions insulate the
40 governing body from political influence.
- 41 2. Mediation has some access to non-federal funding through grants and its network
42 of service providers is free to access non-federal funding for service delivery
43 (subject to the 20% limitation).

1 3. Taxpayers have not assumed risks related to Mediation's liabilities.

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3 Administrative Assignments

4 The Department of Justice should consider whether or not Mediation is administratively
5 assigned to it. Evidence that indicates it is administratively assigned includes the
6 Department of Justice's participation in Mediation's budgetary process. After considering
7 the above and other factors, and using professional judgment, management at the
8 Department of Justice determined and the auditor concurred that disclosures regarding
9 Mediation should be included in its GPFFR.

Bicycle America, Inc. (Scenario A)

(Not Included)

Assumed Facts and Circumstances

Individual bicycle shop owners determined that a nation-wide network of shops and trails was needed to encourage greater reliance on bicycles for transportation and invested in a new corporation, Bicycle America. BA's mission was to create a coast-to-coast network and ensure wide access to bicycling. Shares in the venture are held by local bicycle shops in all major cities.

BA is governed by a board of directors. The board controls and directs the organization's affairs and interests. Board members are elected by the shareholders to serve three-year terms.

Until recently, BA was able to finance its operations from user fees. A recent lawsuit led to serious financial challenges and cash was unavailable to meet pressing needs. Absent a cash inflow, BA was considering closing the trails. Due to exceptional citizen reliance on the trails for transportation and recreation, the federal government intervened and enacted legislation to provide funding.

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but is part of a larger federal program within the Department of Transportation.

The funding legislation also established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions. In addition, the advisory committee will develop a plan to aid BA in returning to financial solvency and refinancing the short-term loan.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should not be included in the government-wide GPFRR. Specifically, BA is not listed in the Budget. Further, based on the available information and other considerations, management determined and the auditor concurred BA does not meet either the remaining ownership or control inclusion principle because BA continues to be owned by common shareholders and governed by the existing board of directors. The advisory committee offers advice to the Congress and does not have authority to direct BA to act.

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Bicycle America, Inc. (Scenario B)

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(Owned – Non-core entity (Intervention))

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Assumed Facts and Circumstances

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Same as above except that in addition to the actions in Scenario A above, the federal government received shares that carry 51% of the voting rights of BA common stock and the advisory committee will develop a plan to sell the shares.

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Tentative Conclusions

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Based on the changed assumptions and no information to the contrary, and using professional judgment, management determined and the auditor concurred that BA should be included in the government-wide GPFFR. When the federal government holds a majority ownership interest, albeit temporary, the owned entity should be included in the government-wide GPFFR.

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Classification as Core or Non-core

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The available facts and circumstances indicate that the federal government's involvement with BA is an intervention not expected to be permanent. Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should be included as a non-core entity because ownership resulted from an intervention. The initial determination would need to be evaluated periodically to determine if the intervention continues to be intended to be temporary.

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Administrative Assignments

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Department of Transportation was assigned responsibility for transferring funds to BA which indicates an administrative assignment. As a result, management determined and their auditor concurred that the department should disclose information regarding BA in its GPFFR. If BA is also administratively assigned to other component reporting entities, then those entities should also disclose information in their GPFFR.

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Chatham Laboratory

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(Control Based on Persuasive Indicator – Core Entity (FFRDC))

Assumed Facts and Circumstances

5 Federal Department of ABC (ABC) organized Chatham Laboratory as a federally funded
6 research and development center (FFRDC) to conduct specialized engineering research
7 that supports ABC's mission related to infrastructure and leads to improved services. As
8 specified in the agreement, ABC provides the physical capital and ongoing funding for the
9 FFRDC and sets research goals for Chatham.

10 ABC selects a contractor to operate Chatham and conduct research consistent with the
11 established goals. ABC is not involved in the day-to-day operations of Chatham. ABC
12 routinely evaluates Chatham's performance and maintains a research office to review
13 strategic plans, consider progress, and serve as a liaison to other federal institutions. ABC
14 reports on Chatham's efforts in its own performance reports.

15 Chatham operations are funded entirely through appropriations provided to ABC. ABC
16 identifies Chatham in its Congressional Budget Justification but Chatham is not specifically
17 identified in the President's Budget. Instead, amounts for Chatham are included in a larger
18 research program which makes payments to the contractor consistent with the terms of
19 the contract. Chatham's contract operator must submit financial and performance reports
20 to ABC periodically. All Chatham assets belong to the federal government and the results
21 of Chatham research are the property of the federal government. In addition, ABC would
22 be responsible for liabilities arising from use of the facilities to conduct research such as
23 environmental cleanup liabilities. ABC is also responsible for employee benefits in the
24 event Chatham operations are terminated.

Tentative Conclusions

26 Based on the assumptions and other considerations, management determined and the
27 auditor concurred that Chatham should be included in the government-wide GPFFR. While
28 the federal government contracts for operation of Chatham, officials at ABC act as the
29 governing body by establishing the purpose and mission of Chatham. Further, ABC
30 continues in this role through its involvement in Chatham's strategic planning and
31 monitoring of performance. Establishing the purpose and mission of an organization is a
32 persuasive indicator that control exists.

Classification as Core or Non-core

34 For this illustration, management determined and the auditor concurred that, based on the
35 assumed facts and circumstances as well as other considerations not described in the
36 illustrations, Chatham should be included as a core entity. In arriving at this conclusion,
37 management and the auditor considered the assumed facts and circumstances presented
38 below in the aggregate and, finding no other facts that in the aggregate contradict these,
39 used professional judgment to determine that Chatham is a core entity.

Evidence suggesting that Chatham is a core entity includes:

- 41 1. It is primarily financed by taxpayers.
- 42 2. Taxpayers have assumed the risks associated with Chatham's liabilities.

1 3. Chatham's annual budget is developed by ABC officials and information related to
2 Chatham activities is provided in its performance report and Congressional Budget
3 Justification. This indicates that decision making regarding the budget leads to
4 elected officials through politically appointed officials and the budget process.

5 Evidence suggesting that Chatham is a non-core entity includes:

6 1. Day-to-day operating decisions are made by a contractor.

7 After considering the above analysis and other factors, management determined and the
8 auditor concurred that Chatham is a core entity.

9 Administrative Assignment

10 ABC should consider whether or not Chatham is administratively assigned to it. In the
11 example, evidence suggesting Chatham is administratively assigned includes ABC's role
12 in Chatham's strategic planning, budgeting, and administration. Having considered the
13 assumed facts and circumstances and other available evidence, the Department of ABC
14 determined and its auditor concurred that it should consolidate Chatham, which is a core
15 entity, in its GPFFR.

Gotham Laboratory

(Not included – Economic Dependency Insufficient to Show Control)

Assumed Facts and Circumstances

The Department of XYZ (XYZ), a department within the executive branch of the federal government, contracted with Gotham Laboratory (Gotham) to conduct specialized engineering research that fulfills a federal mission related to infrastructure and leads to improved services of XYZ. As specified in the agreement, XYZ provides funding to Gotham and Gotham’s management team plans, manages, and executes the assigned research program.

XYZ serves on a panel providing input on the appointment of the board of directors for Gotham. However, the board of directors elects new members and the board manages Gotham’s research. Gotham also may engage in any outside research activities approved by its board of directors.

Gotham performs services for various federal and non-federal organizations but receives 90 percent of its funding from XYZ. XYZ receives appropriated funds to support the Gotham research program. The remaining 10 percent of Gotham funding is derived from contracts with other federal agencies and private industry as well as donations. Gotham’s budget is not reviewed or approved by any federal officials. Gotham is subject to the usual federal contract oversight and reporting requirements.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Gotham should not be included in the government-wide GPFRR. Gotham is not listed in the Budget. Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either ownership or control with expected benefits or risk of loss. Although Gotham appears to be economically dependent on the federal government, it ultimately retains discretion as to whether to accept funding or do business with the federal government. Despite the influence resulting from this dependency, the federal government does not govern Gotham’s financial and operating policies.

Andromeda Prime Power Systems

(Not Included – GSE (potential related party))

Assumed Facts and Circumstances

The federal government created Andromeda Prime Power Systems (APPS) as a government sponsored enterprise (GSE) to facilitate commercial space travel. APPS controls interplanetary travel among a network of commercial space stations and is subject to federal regulations regarding safety and technology transfers to other nations.

APPS is governed by a nine-member board of directors elected by common stock shareholders. Board members serve three-year terms.

APPS issued common stock and received a federal government grant to finance its initial capital and startup costs. The APPS is under no obligation to return the grant funds but is expected to promote U. S. competitive interests in the emerging space travel industry.

Also, during the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands. APPS issued bonds to finance the initiative. The interest rate required by lenders indicates that the market assumes the federal government has implicitly guaranteed the payment of principal and interest. In its regulatory capacity, the federal government required APPS to establish a capital reserve and created a five-member APPS Advisory Board to monitor and advise Congress on APPS' fiscal operations.

APPS derives its revenues from fees charged to commercial entities and receives no ongoing federal support through the Budget.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be included in the government-wide GPFFR as a core or non-core entity. APPS is not listed in the Budget and the federal government does not have a majority ownership interest in the company. Management does a thorough assessment of control indicators and determined that the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

Management further considers whether APPS should be reported as a Related Party ----

[This example will be developed further when draft related party standards are available.]

1 **U.S. Museum (Scenario A)**

2 (In the Budget - Core)

3 Assumed Facts and Circumstances

4 The U.S. Museum (the Museum) was organized to bring history and lessons about the
5 United States to individuals through educational outreach, teacher training, traveling
6 exhibitions, and scholarship.

7 The Museum is an independent establishment of the federal government and is governed
8 by a board of trustees, known as the Museum Council. The Council has 130 voting
9 members and 20 nonvoting members. Of the voting members, 110 are appointed by the
10 President and serve 10-year terms (appointments are staggered) and the other 20 are
11 appointed from among members of Congress to serve during their term. The non-voting
12 members are selected by the Council.

13 The Museum receives an annual appropriation as well as private donations. Annual
14 appropriations account for approximately 90% of operations and activities, with the
15 remaining 10% coming from donor activities and museum sales. The museum is listed in
16 the *Budget of the United States Government: Analytical Perspectives –Federal Programs*
17 *by Agency and Account* (Budget). All donations are considered to be available for use
18 unless specifically restricted by the donor or by time. Furthermore, the Museum is not
19 considered to be a non-federal organization receiving federal financial assistance.

20 Tentative Conclusions

21 Based on the assumptions and other considerations, management determined and the
22 auditor concurred that the Museum should be included in the government-wide GPFFR
23 because the Museum is listed in the Budget (the first inclusion principle). Further, the
24 President and the Congress appoint the Museum Council which indicates the federal
25 government controls the Museum (the third inclusion principle).

26 Classification as Core or Non-core

27 Because it is listed in the budget, the Museum is presumed to qualify as a core entity
28 assuming no information to the contrary. In this example, management determined and
29 the auditor concurred that there were no facts rebutting or contradicting the assumption
30 that the Museum is a core entity. As a core entity, it should be consolidated in the
31 government-wide GPFFR.

32 Administrative Assignment

33 Based on a review by management, no other component reporting entity has been
34 assigned administrative responsibilities for the Museum. Therefore, the Museum is
35 consolidated only directly into the government-wide GPFFR.

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U.S. Museum (Scenario B)

(Control based on Appointment of a Majority of Governing Body - Non-core (Financially Independent Entity))

Assumed Facts and Circumstances

The U.S. Museum (the Museum) was organized by volunteers to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship. The Museum is intended to be a self supporting operation. Shortly after its founding, it entered into a cooperative relationship with the Department of Federal Museums, a department within the executive branch.

The Museum is incorporated as a not-for-profit governed by the Museum Council. The Council has 15 voting members referred to as trustees. The presidentially-appointed head of the Department of Federal Museums serves as the Council chairperson. Of the remaining voting trustees, nine are appointed by the President and five are selected and approved by the Council. Except for the chairperson, all trustees serve ten-year terms which are staggered. The Council selects a Board of Directors for the Museum and appoints the Chief Executive Officer.

The Museum is a public-private partnership which receives an annual appropriation as well as private donations, rental income, and sales revenue. No fees are charged for educational events or museum tours. Rental income from the Museum facilities is derived from rates competitive with other venues for similar events. Rental of the facilities is intended to support museum activities such that the museum can eventually be self supporting. Presently, annual appropriations account for approximately 15% of operations and activities, with the remaining 85% coming from donor activities, rental income, and museum sales. The museum is listed the *Budget of the United States Government: Analytical Perspectives –Federal Programs by Agency and Account* (Budget). The funding received from donations is restricted to use by the Museum and the trustees approve the annual budget including rental income and fundraising goals.

The Museum’s employees are not federal employees. The Museum is required to fully fund any deferred compensation programs and to advise its employees that the federal government has not guaranteed their deferred compensation.

Tentative Conclusions

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide GPPFR because it is controlled by the federal government. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. An assessment of the remaining inclusion principles shows that the Museum is controlled by the federal government since a majority of the trustees are appointed by the President; a persuasive indicator of control.

Classification as Core or Non-core

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Museum should be included as a non-core entity. In arriving at this conclusion, management and the auditor considered the assumed facts and

1 circumstances presented below in the aggregate and, finding no other facts that in the
2 aggregate contradict these, used professional judgment to determine that Mediation is a
3 non-core entity.

4 Evidence suggesting that U. S. Museum is a core entity includes:

- 5 1. Appointments to the Council are made by elected officials.
- 6 2. Museum services are provided on a non-market basis to the general public.

7 Evidence suggesting that U.S. Museum is a non-core entity includes:

- 8 1. The Museum is a separate legal entity – a not-for-profit – and terms for a
9 majority of Council members are ten-years. This insulates the organization from
10 political influence. Further, day-to-day operations are governed by a board of
11 directors whose members are not directly appointed by elected officials.
- 12 2. The Museum is intended to receive limited taxpayer support and market rates
13 are charged for facility rentals.
- 14 3. The Museum is required to make explicit that any liability for deferred
15 compensation of its employees is not guaranteed by the federal government.
16 This indicates that limited risks are imposed on the taxpayer.

17 Non-core entities should be disclosed by the component reporting entity to which they are
18 administratively assigned and, if material, by the government-wide entity.

19 Administrative Assignment

20 Management determined and the auditor concurred the Department should include the
21 Museum as a non-core entity in its GPFFR because the Department is assigned
22 administrative responsibility for the Museum based on appointment of its head to serve as
23 chairperson of the Council.

24

1 **Firefighters’ Housing Limited Partnership**

2 (Owned and Controlled - Core Entity)

3 Assumed Facts and Circumstances

4 Agency 123 has been authorized to establish pre-positioned housing and equipment
5 storage facilities on federal land to ensure immediate and efficient deployment of fire
6 fighting resources in response to wildfires in remote areas. The enabling legislation
7 specifically allows Agency 123 to enter into a wide range of financial agreements with
8 private-sector participants to provide housing and equipment storage for the fire fighters.

9 The agency and a private developer formed a limited partnership—Firefighters’ Housing
10 Limited Partnership (FHLP)—to develop, operate, maintain, and own, all housing and
11 storage units and facilities for 25 years. Agency 123 leased land to FHLP under a 25-year
12 ground lease. At the end of the 25-year ground lease, the agency has the option to renew
13 the partnership for another 25 years. If it does not renew, via the agency’s residual
14 ownership interest, all structures and land revert back to Agency 123. During the 25-year
15 ground lease, Agency 123 will provide an annual payment to FHLP from its appropriated
16 funds for management services, use of the housing by Agency 123 employees during the
17 fire season, and equipment storage year-round.

18 The private sector partner is guaranteed a minimum payment from FHLP and has no
19 ownership interest in FHLP properties. The private sector partner also is entitled to a share
20 of profits from non-fire season vacation rentals of the housing so long as the facilities meet
21 established condition requirements. Profits not distributed to the private sector partner are
22 retained by FHLP and can be used for capital improvements including development of new
23 housing in adjacent parks under similar terms.

24 As part of the partnership agreement, Agency 123 has significant authority to determine
25 the policies governing FHLP’s activities and to affect day-to-day decisions such as design
26 and construction. Any debt incurred by FHLP must be authorized by the agency.
27 Furthermore, capital and operating budgets require agency approval and financial
28 transactions are monitored on a monthly basis by the agency’s contract administration
29 office. The partnership is required to produce audited financial statements annually.

30 Tentative Conclusions

31 Based on the assumed facts and circumstances and other considerations, management
32 determined and the auditor concurred that FHLP should be included in the government-
33 wide GPPFR. A substantial ownership interest is present via the agency’s continuing
34 ownership interest. In addition, several control indicators are met as summarized in the
35 following analysis of available information.

- 36 1. Agency 123 may be able to direct the partnership regarding the establishment
37 and subsequent revision of financial and operating policies through its review
38 and approval of operating budgets, designs, and condition of the facilities. If so,
39 this would be a persuasive indicator of control. Management should weigh the
40 impact of its role in directing the FHLP’s financial and operating policies and
41 consider how much discretion falls to the private sector partner.
- 42 2. If the persuasive control indicator is not met, management should consider
43 other indicators that in the aggregate indicate control. Agency 123 has
44 significant authority to:

- 1 a. direct the ongoing use of assets.
- 2 b. approve the budgets and business plans for FHLP.
- 3 c. require audits.
- 4 d. limit borrowing and investment by FHLP.

5 Classification as Core or Non-core

6 For this illustration, management determined and the auditor concurred that, based on the
7 assumed facts and circumstances as well as other considerations not described in the
8 illustrations, FHLP should be included as a core entity. In arriving at this conclusion,
9 management and the auditor considered the assumed facts and circumstances presented
10 below in the aggregate and, finding no other facts that in the aggregate contradict these,
11 used professional judgment to determine that FHLP is a core entity.

12 Evidence suggesting that FHLP is core includes the following:

- 13 1. FHLP provides housing to firefighters as its primary function on a non-market
14 basis.
- 15 2. It is financed by taxpayer funds supplemented by any retained profits from non-
16 fire season rentals.
- 17 3. Decisions are made by organizational leaders at Agency 123 who are
18 appointed by the President and confirmed by the Senate.
- 19 4. Funds transferred to FHLP will be approved through the usual budgetary
20 process so that FHLP funding will be included in the budget approved by the
21 Congress and the President.

22 Evidence suggesting that FHLP is non-core includes the following:

- 23 1. FHLP has a legal identity separate from Agency 123.
- 24 2. FHLP is authorized to provide vacation housing services to customers on a
25 market basis and use the proceeds to first compensate the private sector
26 partner and then reduce the cost of firefighter housing borne by the taxpayer.

27 As a core entity, FHLP should be consolidated by the component reporting entity to which
28 it is administratively assigned.

29 Administrative Assignment

30 Management determined and the auditor concurred Agency 123 should consolidate FHLP
31 because it is assigned administrative responsibility for FHLP based on its inclusion of
32 FHLP funding in its budget request and its coordination and monitoring of FHLP's plans
33 and performance.

The Blue Mountain Observatory

(Controlled – Non-core Entity (FFRDC))

Assumed Facts and Circumstances

Agency XYZ created a federally funded research and development center (FFRDC), the Blue Mountain Observatory (BMO), to provide facilities and leadership needed to conduct scientific research in a wide range of fields, including the study of black holes. Agency XYZ is BMO's primary sponsor. University Cooperative (UC) is a non-profit membership corporation created by 50 universities conducting research that would benefit from use of BMO facilities. UC was created to seek the role of managing, operating, and maintaining BMO under a cooperative agreement with Agency XYZ. UC subsequently entered into a cooperative agreement with Agency XYZ.

UC is governed by a board of trustees appointed to represent each of the 50 member universities. UC trustees appoint an individual to serve as president of BMO. The trustees also oversee BMO operations including providing input on strategic plans, approving the annual program plan before its submission to Agency XYZ for approval, responding to Agency XYZ input, and monitoring financial activities including establishing investment policies. UC employs staff to perform all BMO activities and these individuals are referred to as 'BMO employees.' Member universities fund any non-BMO activities of UC.

The cooperative agreement between UC and Agency XYZ ensures close coordination between Agency XYZ and BMO employees. The agreement contains requirements necessary for Agency XYZ's oversight of both BMO's programs and UC's management activities, including the following provisions:

1. Provide input to a strategic plan developed by BMO employees in collaboration with UC trustees. The strategic plan sets the overall direction and priorities for BMO.
2. Agency XYZ must approve the annual program plan and budget for use of resources.
3. UC must provide to Agency XYZ an annual scientific report and audited financial statements.
4. Agency XYZ participates in developing a five-year strategic plan.
5. BMO and Agency XYZ must meet annually to review progress and ensure that scientific and facility priorities remain consistent with those of Agency XYZ..

UC works cooperatively with Agency XYZ to ensure the effective implementation of the strategic mission of BMO to the benefit of the research community. Mid-way through the current cooperative agreement, Agency XYZ will conduct comprehensive reviews of science, facilities, and management to inform future decisions regarding recompetition of the cooperative agreement for the facility. UC is under no obligation to continue in its role in managing, operating, and maintaining BMO.

In the most recent fiscal year, BMO received \$100 million in funding from Agency XYZ through its cooperative agreement with UC. Agency XYZ proposed the \$100 million in funding in its Congressional Budget Justification and described how the funds would be used to support the research programs at BMO. In administering the funds provided by Agency XYZ for BMO programs, UC may:

- 1 1. expend funds to meet ongoing operational needs.
- 2 2. make annual cash contributions to employee benefits programs (accrued leave
- 3 and pension plans).
- 4 3. make annual payments due under long term leases.
- 5 4. construct or purchase new assets so long as all resulting property is titled to BMO.

6 In the event the cooperative agreement with UC is terminated, Agency XYZ would assume
7 management responsibility for the facility. Further, Agency XYZ would seek appropriations
8 for termination expenses such as post-retirement benefit liabilities for BMO employees.
9 However, Agency XYZ would be obligated to pay termination benefits only if funds were
10 appropriated for that purpose.

11 Tentative Conclusions

12 Based on the assumed facts and circumstances and other considerations, management
13 determined and the auditor concurred that BMO should be included in the government-
14 wide GPFRR. BMO is not listed in the Budget so other inclusion principles must be
15 considered. BMO facilities are owned by the federal government and new assets are titled
16 to the federal government. With respect to the control inclusion principle, Agency XYZ
17 establishes the fundamental purpose and mission of BMO through its participation in
18 strategic planning and the overall effort to ensure BMO goals are consistent with Agency
19 XYZ research goals. This effort includes annual actions to approve BMO's annual program
20 plan and operating budget. These actions are persuasive indicators of control.

21 Classification as Core or Non-core

22 Evidence suggesting that BMO is core includes the following:

- 23 1. BMO provides, as its primary function, research facilities and leadership to
24 university members of UC on a non-market basis. It is financed by taxpayer
25 funds supplemented by non-government donors.
- 26 2. Key operational decisions are made by organizational leaders at Agency XYZ
27 who are appointed by the President and confirmed by the Senate.
- 28 3. Funds transferred to BMO will be approved through the usual budgetary
29 process so that use of taxpayer funds to support BMO is ultimately decided by
30 the Congress and the President.

31 Evidence suggesting that BMO is non-core includes the following:

- 32 1. BMO has a legal identity separate from Agency XYZ.
- 33 2. The governance structure ensures that universities have substantial input
34 regarding BMO's strategic plans and annual program plan. The significant
35 involvement of non-governmental entities lessens political influence.
- 36 3. BMO's liabilities are not obligations of the U.S. government.
- 37 4. BMO is authorized to accept donations from non-government entities.

38 Based on the assumed facts and circumstances and other information, management
39 determined and the auditor concurred that BMO is a non-core entity. As a non-core entity,
40 BMO should be disclosed by the component reporting entity to which it is administratively
41 assigned.

42 Administrative Assignment

Attachment 1: Draft Illustration Guide

- 1 Management determined and the auditor concurred that Agency XYZ should disclose
- 2 information about BMO because it is assigned administrative responsibility for BMO based
- 3 on its inclusion of BMO funding in its budget request and its coordination and monitoring of
- 4 BMO's plans and performance.

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2 **Table 1: Summary Application of Proposed Standard**

NAME	PAGE	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CORE OR NON-CORE ENTITY	
		IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CORE ENTITY (CONSOLIDATED)	A NON-CORE ENTITY (DISCLOSED)
ABC Department	3	Yes				Yes	Entities listed in the Budget are presumed to be core.	
Epsilon Corporation	5	Yes				Yes	Entities listed in the Budget are presumed to be core.	
Sigma Association	6	No		Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate.		Yes		Financially independent entity
Scholars University	8	Yes but as a non-federal organization receiving federal financial assistance.	No	No. Scholars' board of trustees elects its respective board members. Scholars' board of trustees primarily directs the university's affairs and the university seeks sources of revenue to operate virtually in a self-sustaining manner.	No	No		
Education Research Institute	10	No		Yes, the federal government can unilaterally dissolve ERI and access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is ultimately funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and taxpayers assume risk.	

Attachment 1: Draft Illustration Guide

NAME	PAGE	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CORE OR NON-CORE ENTITY	
		IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CORE ENTITY (CONSOLIDATED)	A NON-CORE ENTITY (DISCLOSED)
Mediation, Inc.	12	Yes but as a non-federal organization receiving federal financial assistance.		Yes. Considering the control indicators in the aggregate, the federal government controls Mediation. It provides significant input on the selection of governing board members, appoints a key executive, limits Mediation's capacity to generate revenue, approves the annual budget, requires audited financial statements, and directs Mediation to work with other governments.		Yes		Mediation's governing body is insulated from political influence and risks are not assumed by the taxpayer.
Bicycle America, Inc. (Scenario A)	15	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment		No. BA generally provides market-based services and primarily operates independently of the federal government.		
Bicycle America, Inc. (Scenario B)	16	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
Chatham Laboratory (FFRDC)	17	No	The assets and research results are owned.	Yes. The federal government establishes the purpose and mission of Chatham.		Yes	Yes, Chatham is primarily funded by taxpayers, and governance and accountability rests with the President and Congress.	

Attachment 1: Draft Illustration Guide

NAME	PAGE	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPPFR?					CORE OR NON-CORE ENTITY	
		IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CORE ENTITY (CONSOLIDATED)	A NON-CORE ENTITY (DISCLOSED)
Gotham Laboratory	19	No	No	No	No	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
Andromeda Prime Power Systems (GSE)	20	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No but should consider related party provisions.		
US Museum (Scenario A)	21	Yes		Yes. The Museum Council voting members, 110 are appointed by the President and 20 are appointed from among members of Congress		Yes	Yes. The Museum is in the budget and primarily funded by taxpayers and governance and accountability rests with the President and Congress.	
US Museum (Scenario B)	22	Yes but as a non-federal organization receiving federal financial assistance		Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent entity.
Firefighters' Housing Limited	24	No	Ownership of property is retained.	Yes. Agency 123 has significant authority to direct the limited partnership's activities and to affect day-to-day activities such		Yes	Yes. Taxpayers fund the housing and risks have been assumed through guarantee of	

NAME	PAGE	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CORE OR NON-CORE ENTITY	
		IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CORE ENTITY (CONSOLIDATED)	A NON-CORE ENTITY (DISCLOSED)
Partnership				as in design and construction and the partnership's purpose is to carryout federal missions and objectives.			partnership debts	
Blue Mountain Observatory (FFRDC)	26	No	Property is owned by the federal government.	Yes. The federal government establishes the purpose and mission of BMO.		Yes		BMO is a separate legal entity and UC plays a significant role in its governance without political influence.

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