



April 11, 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 D¹**

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 objectives for the April Board meeting are 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*.

Staff is specifically seeking member input on:

- 1 – the depth of analysis included in the illustrations
- 2 – any other illustrations that should be developed
- 3 – the specific decisions illustrated in the analysis and whether members might disagree with some conclusions reached.

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.

BRIEFING MATERIAL

The transmittal memorandum includes a discussion of issues and recommendations beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on page 5. In addition, the following items are attached:

- Attachment 1: Draft Illustrations

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

BACKGROUND

The Board previously reviewed an initial draft of illustrations last year so staff could determine the level of detail, format, and other high level structural issues. From this review the Board directed staff to ensure that:

- Illustrations do not present actual entities. Members expressed concern that some preparers would apply the illustration guide literally.
- For each example, the analysis should be brief. Members suggested using a table to present the analysis for each example entity.

NEXT STEPS

Staff plans to address any concerns identified by the Board. The goal is to have a complete ED by the August 2012 meeting.

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.

STAFF ANALYSIS AND RECOMMENDATIONS

1. Format of the illustrations

Previously the Board had noted some concern with the format of the illustrations. The Board had expressed an interest in seeing a table presented and also believed the analysis should be brief. Staff has streamlined the analysis and presented a table with the analysis. Staff believes the concise analysis and table can be linked to the structure of the exposure draft and flow chart.

Question 1a for the Board

Does the Board agree with the format of the illustrations, table, and the level of detail presented?

Staff believes the level of detail presented for each illustration provides the key information necessary to make decisions regarding the inclusion principles and core/non-core attributes while. Staff also kept in mind the Board's concern that preparers may apply the illustration literally and therefore did not use any known examples.

Question 1b for the Board

Does the Board agree with the level of detail of the descriptions for the entity illustrations?

Staff believes the illustrations cover a wide variety of example organizations and most importantly show how changing a few aspects in an example may change the analysis and presentation (see Bicycle America and Museum examples.) The examples cover different types of core and non-core entities and specific organizations that staff has noted questions about or that staff believes question may come up about, such as museums, public-private partnerships, and federally funded research and development centers.

Question 1c for the Board

Does the Board wish to offer other organizations that should be included in the illustration guide?

2. Board member feedback on illustrations and conclusion reached

As noted, previously most of the Board discussion was focused on the format of the illustrations. Staff welcomes input on the analysis of the illustrations against the proposed standards and whether the Board members agree with the conclusions.

Question 2 for the Board

Does the Board agree with the analysis offered and conclusions reached on the illustrations in the draft?

QUESTIONS FOR THE BOARD

1a. Does the Board agree with the format of the illustrations, table, and the level of detail?

1b. Does the Board agree with the level of detail of the descriptions for the entity illustrations?

1c. Does the Board wish to offer other organizations that should be included in the illustration guide?

2. Does the Board agree with the analysis offered and conclusions reached on the illustrations in the draft?

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Table of Contents

PREAMBLE.....2

ABC DEPARTMENT.....3

EPSILON CORPORATION.....5

SCHOLARS UNIVERSITY.....7

EDUCATION RESEARCH INSTITUTE (ERI)8

MEDIATION, INC.....10

BICYCLE AMERICA, INC. (SCENARIO A)12

BICYCLE AMERICA, INC. (SCENARIO B)13

CHATHAM LABORATORY (SCENARIO A)14

CHATHAM LABORATORY (SCENARIO B)15

ANDROMEDA PRIME POWER SYSTEMS.....16

U.S. MUSEUM (SCENARIO A).....17

U.S. MUSEUM (SCENARIO B).....18

FIREFIGHTER’S HOUSING LIMITED PARTNERSHIP.....20

THE BLUE MOUNTAIN OBSERVATORY22

SUMMARY APPLICATION OF PROPOSED STANDARD.....24

1
2
3
4
5
6
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Preamble

The examples presented in this Appendix are intended to demonstrate how the provisions of the proposed standard would be applied to a particular set of hypothetical circumstances. For simplicity, the decisions regarding presentation and/or disclosure are based solely on the hypothetical circumstances presented and are structured to demonstrate how to apply the guidance contained in the decision flowchart presented in Appendix B of the Exposure Draft (ED) *Identifying and Reporting upon Organizations to Include in General Purpose Financial Report*.

The examples are for illustrative purposes only. They do not represent actual entities and do not indicate a preferred method. Rather, the illustrations are nonauthoritative. Application of the ED to individual entities requires consideration of the circumstances specific to that entity.

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ABC Department

Background

Congress established ABC department 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 (NFP) organizations.

Governance Structure

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.

In addition, Congress primarily monitors ABC's activities through hearings and audits. Audits have been conducted to determine whether:

- ABC is conducting its operations in accordance with established legislation.
- The department is managing its resources in an efficient and effective manner.
- Assertions regarding ABC's achievements are supported by reliable evidence.
- ABC has established adequate internal control to safeguard its assets.

The audits are conducted by the Government Accountability Office (GAO) and ABC's Inspector General (IG). The GAO is an independent agency that works for Congress and ABC's IG is appointed by the President and confirmed by the Senate.

Budget and Finance Considerations

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 Congress consider ABC's request for resources and determine the amount that should be budgeted to operate and provide services. The appropriation describes the terms and conditions that ABC must adhere to when spending the funds. For the fiscal year, the appropriation specifies the budget authority and certain limitations on the use of funds for each of ABC's agencies.

1 Periodically, ABC must provide Congress and the President with information on its
2 financial and operational plans and performance. ABC meets the requirements
3 through various reports that discuss matters such as:

- 4 • Economic concerns and recommended strategies for addressing them
- 5 • Proposed activities that may be of interest to particular Congressional
6 committees or subcommittees
- 7 • The status of on-going projects
- 8 • Activities completed during the period
- 9 • Resource needs and justification for such needs
- 10 • Net costs, financial position, budgetary resources, systems, and internal
11 control.

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13 Application of the Proposed Standard

14 ABC Department should be included in the government-wide GPFFR and should
15 be consolidated. ABC department is listed in the Budget and is not a non-federal
16 organization receiving federal financial assistance. Because it is listed in the
17 budget, ABC department is presumed to qualify as a core entity and should be
18 consolidated.

19 Table 1: Summary Application of Proposed Standard on page 24 summarizes how
20 the proposed standard was applied in determining whether ABC Department
21 should be included in the reporting entity and what information should be
22 presented.

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Epsilon Corporation

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Background

Congress and the President established Epsilon Corporation as a government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation discusses provisions that govern Epsilon’s activities.

Governance Structure

The U.S. Code lists Epsilon as a government corporation. It is led by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. In addition, to ensure a bi-partisan effort, no more than four of the appointees may be from the same political party. Board members serve seven-year terms. Also, Congress monitors Epsilon’s activities by conducting hearings on Epsilon’s programs and requesting GAO and OIG audits.

Budget and Finance Considerations

Epsilon is listed in the Budget, although Epsilon does not receive appropriations because it is permitted to receive premiums from the institutions it insures. However, legislation limits how Epsilon can invest these proceeds and, to help ensure that Epsilon remains financially viable, legislation requires that the entity maintain a level of its funds in reserve. The board of directors is permitted to determine the level of the reserve. If Epsilon encounters a shortfall, the entity may borrow a limited amount of funds from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

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

- Program performance results
- Financial position, results of operations, and cashflows
- Adequacy of internal control
- Adequacy of systems

Application of the Proposed Standard

Epsilon should be included in the government-wide GPFFR and should be consolidated. Although listed in the Budget, Epsilon does not receive appropriations but it is Congressional authorities that permit it to receive premiums and it is subject to the budget process which means Congress annually considers its financial operations and status. Further, each of Epsilon’s governing board members are appointed by the President and confirmed by the Senate. These circumstances demonstrate that the federal government exercises a level of

1 control over Epsilon and the entity should be included in the government-wide
2 GPFFR.

3 Entities listed in the budget, are presumed to qualify as core and should be
4 consolidated. In addition, accountability rests with the President and Congress
5 because they appoint or confirm its board and monitor its activities.

6 Table 1: Summary Application of Proposed Standard on page 24 summarizes how
7 the proposed standard was applied in determining whether Epsilon should be
8 included in the GPFFR and what information should be presented.

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Scholars University

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Background

Congress and the President chartered Scholars University as a private, NFP educational institution and legislation discusses the mission of the university.

Governance Structure

Scholars University is governed by a 29 member board of trustees. The board controls and directs the university's affairs and interests. 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 determines the university's tuition and fee structure and the university is subject to the Secretary's annual inspection.

Budget and Finance Considerations

To support its mission, Scholars University receives revenue from student tuitions and fees. In addition, the university is listed in the Budget under the Department of Education and it receives appropriations to support its academic programs, including support for construction projects, capital improvements, and maintenance. 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. The university is also permitted to receive private contributions, but must provide a financial report to the Secretary of Education that presents the sources of its receipts and the object of its disbursements during the reporting period.

Application of the Proposed Standard

Scholars University should not be included in the GPFRR. Although listed in the Budget, Scholars is a non-federal organization receiving federal financial assistance and it does not meet the other inclusion principles based on the information presented. Scholars' governing board elects its members and the Scholars' Board of trustees primarily directs the university's affairs, therefore it does not meet the control principle. Although some funding is received through appropriations, the federal government does not have an ownership interest.

Table 1: Summary Application of Proposed Standard on page 24 summarizes how the proposed standard was applied in determining whether Scholars should be included in the GPFRR and what information should be presented.

Education Research Institute (ERI)

Background

ERI was established through a public law specifying the organization's:

- status as a tax exempt non-profit
- purpose and duties
- governance structure
- sources of financing
- reporting requirements

The purpose of the ERI is to assist state and local officials in making informed decisions regarding effective education methods. The ERI will use an open process to identify priority areas for research, fund and oversee high-quality research programs, and disseminate the results of its research. The ERI may not mandate adoption of its recommendations.

Governance Structure

ERI is governed by a board of directors which has 15 members. Two members are specific federal officials within the Department of Education. The remaining 13 are appointed by the President and confirmed by the Senate and serve six-year terms. One of these 13 appointed members will serve as chairperson. To ensure a bi-partisan effort, no more than seven of the appointees may be from the same political party. The appointees are subject to certain financial disclosure and conflict of interest requirements but are not federal government employees.

Budget and Finance Considerations

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the US Treasury to the ERI trust fund. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI also may receive donations consistent with laws regulating fund raising by tax exempt organizations. The Department of Education participates in the development of the ERI annual budget and serves as a liaison between ERI and Treasury. The department also reports information related to ERI activities in its annual performance report.

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

1 Application of the Proposed Standard

2 ERI should be included in the government-wide GPFFR and consolidated.
3 Although ERI is listed in the Budget, it is a non-federal organization receiving
4 federal financial assistance. However it does meet the inclusion principles. The
5 federal government appoints 13 of the 15 ERI board members and the two
6 remaining board members are federal officials. These circumstances demonstrate
7 that the federal government exercises a level of control over ERI and that the entity
8 should be included in the GPFFR.

9 Also, ERI is in the budget and primarily funded by taxpayers. This indicates that
10 ERI is a core entity and core entities should be consolidated. The general oversight
11 functions and reporting practices of the Department of Education indicate that ERI
12 is administratively assigned to it. The Department of Education should consolidate
13 ERI in its GPFFR.

14 Table 1: Summary Application of Proposed Standard on page 24 summarizes how
15 the proposed standard was applied in determining whether ERI should be included
16 in the GPFFR and what information should be presented.

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Mediation, Inc.

Background

Mediation was established as a 501(c)(3) through a public law specifying the organization's:

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

The corporation is authorized to operate as a non-member NFP organization within the District of Columbia. The purpose of the Corporation is to ensure that low-income individuals have access to mediation services to resolve non-criminal legal disputes. A network of local government and nonprofit organizations will be developed to deliver services financed by grants.

Governance Structure

The governing board comprises 13 members appointed by the President and confirmed by the Senate for three-year terms. The chairperson is selected by the President from among the members. No more than seven members may be affiliated with the same political party.

Budget and Finance Considerations

An annual appropriation is provided in the federal budget. The appropriation is made to a large federal department which transfers cash to the Corporation. The Corporation manages its cash balances similar to other non-profits and may retain any interest earnings on unspent funds. In addition, the Corporation may apply for and receive grants from any grant making organization—public or private.

Annual audited financial reports are required to be publicly available.

Application of the Proposed Standard

Mediation should be included in the government-wide GPFFR and consolidated. Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. The federal government appoints all of the entity's governing board members. This circumstance demonstrates that the federal government exercises a level of control over the entity. Consequently, Mediation should be included in the GPFFR. Also, Mediation is in the budget, primarily funded by taxpayers, and governance and accountability rests with the President and Congress. This indicates that Mediation is a core entity and core entities should be consolidated.

1 Table 1: Summary Application of Proposed Standard on page 24 summarizes how
2 the proposed standard was applied in determining whether Mediation should be
3 included in the GPFFR and what information should be presented.

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Bicycle America, Inc. (Scenario A)

Background

A nation-wide network of shops and trails was created to encourage greater reliance on bicycles for transportation. Individual jurisdictions invested in the effort to create a coast to coast network and ensure wide access to bicycling. Shares in the venture were held by local bicycle shops in all major cities and Bicycle America (BA) began operations. BA was able to finance its operations from user fees until it encountered some serious financial challenges. The federal government intervened and enacted legislation to provide funding with provisions as described below.

Governance Structure

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.

The funding legislation established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions.

Budget and Finance Considerations

BA was organized to be a self-sustaining entity, deriving its revenues from user fees. As part of the intervention, the federal government extended a short-term loan to BA. The federal financial assistance to BA is not explicitly presented in the Budget, but is part of a larger federal program.

Application of the Proposed Standard

BA should not be included in the GPFFR. BA is not listed in the Budget and BA is owned by common shareholders. Also, BA's governing board members are elected by common shareholders and it operates independently of the federal government.

Table 1: Summary Application of Proposed Standard on page 24 summarizes how the proposed standard was applied in determining whether BA should be included in the GPFFR and what information should be presented.

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Bicycle America, Inc. (Scenario B)

Background

A nation-wide network of shops and trails was created to encourage greater reliance on bicycles for transportation. Individual jurisdictions invested in the effort to create a coast to coast network and ensure wide access to bicycling. Shares in the venture were held by local bicycle shops in all major cities and Bicycle America (BA) began operations. BA was able to finance its operations from user fees until it encountered some serious financial challenges. The federal government intervened and enacted legislation to provide funding with provisions as described below.

Governance Structure

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.

The funding legislation established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions.

Budget and Finance Considerations

BA was organized to be a self-sustaining entity, deriving its revenues from user fees. As part of the intervention, the federal government extended a long-term loan to BA. The federal assistance to BA is not explicitly presented in the Budget, but is part of a larger federal program.

In addition, the federal government received shares that carry 51% of the voting rights of BA common stock.

Application of the Proposed Standard

BA should be included in the GPFFR and should be disclosed. Although BA is not listed in the Budget, the federal government acquired 51% of the common shareholder voting rights. When the federal government holds a majority ownership, the entity should be included in the GPFFR. BA primarily finances its operations through fees rather than taxes and its governing board members are elected by common shareholders. These are characteristics of a non-core entity and such entities should be disclosed by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

Table 1: Summary Application of Proposed Standard on page 24 summarizes how the proposed standard was applied in determining whether BA should be included in the GPFFR and what information should be presented.

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Chatham Laboratory (Scenario A)

Background

Federal Department ABC organized Chatham Laboratory to conduct specialized engineering research that fulfills a federal mission and leads to improved services of the Department ABC. As specified in the agreement, Department ABC provides the capital and funding for Chatham.

Governance Structure

Although not involved in the day to day operations of Chatham, the federal government appoints the board of directors to serve 3-year terms. In addition, Department ABC routinely evaluates Chatham’s performance.

Budget and Finance Considerations

Chatham receives all of its funding through appropriations provided specifically through Department ABC in its budget request to Congress. Chatham must submit its budget plan for approval and audited financial statements to Department ABC on an annual basis. Upon Chatham’s dissolution, assets transfer to the federal government.

Application of the Proposed Standard

Chatham should be included in the government-wide GPFFR and should be consolidated. Although Chatham is listed in the Budget it is a non-federal organization receiving federal financial assistance. The federal government appoints the entity’s board of directors. This circumstance demonstrates that the federal government exercises a level of control over the entity. Therefore, Chatham should be included in the GPFFR. Chatham is in the budget, primarily funded by taxpayers, and governance and accountability rests with the President and Congress. This indicates that Chatham is a core entity and core entities should be consolidated. Chatham has been administratively assigned to Department ABC and should be consolidated in the department’s GPFFR.

Table 1: Summary Application of Proposed Standard on page 24 provides an analysis to illustrate how the proposed standard may be applied to determine whether Chatham (A) should be included in the GPFFR and, if so, what information should be presented.

Chatham Laboratory (Scenario B)

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Background

Federal Department ABC contracted with Chatham Laboratory to conduct specialized engineering research that fulfills a federal mission and leads to improved services of the Department ABC. As specified in the agreement, Department ABC provides the capital and funding for Chatham and the Chatham management team plans, manages, and executes the assigned research program.

Governance Structure

Department ABC serves on a panel that provides input on the appointment of the board of directors for Chatham Laboratory. However, the board of directors elects new members and the board manages Chatham's research. Chatham is permitted to engage in any outside research activities approved by its board of directors.

Budget and Finance Considerations

Chatham performs services for various federal and non-federal organizations. It receives a portion of its funding from Department ABC, which receives appropriated funds to support the Chatham research program. In addition, Chatham receives revenue from contracts with other federal agencies and private industry as well as donations. Chatham's budget is not submitted, reviewed, or approved by any federal officials and no financial reporting requirements are imposed (other than those imposed on all NFPs).

Application of the Proposed Standard

Chatham should not be included in the GPFFR. Although Chatham is listed in the Budget it is a non-federal organization receiving federal financial assistance. Further, based on the information provided above, Chatham does not meet the ownership or control with benefit inclusion principles. Therefore, it should not be included in the GPFFR.

Table 1: Summary Application of Proposed Standard on page 24 provides an analysis to illustrate how the proposed standard may be applied to determine whether Chatham (B) should be included in the GPFFR and, if so, what information should be presented.

Andromeda Prime Power Systems

Background

The federal government created Andromeda Prime Power Systems (APPS) to facilitate commercial space travel. APPS controls interplanetary travel among a network of commercial space stations.

Governance Structure

APPS is governed by a nine-member board of directors who are elected by common shareholders. Board members serve three-year terms and APPS is not listed among government corporations.

Budget and Finance Considerations

APPS issued common stock and received a federal government grant to finance its initial capital and startup costs. The APPS common stock is publicly-traded and in return for its initial investment, the federal government received convertible, non-voting preferred stock. Subsequently, as space travel expanded and APPS' operations grew, the federal government converted the preferred shares and acquired a 45% ownership interest in APPS.

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 and the federal government guaranteed the payment of principal and interest. However, the federal government required APPS to establish a capital reserve and created the 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 is not listed in the Budget.

Application of the Proposed Standard

APPS should not be included in the GPFFR. APPS is not listed in the Budget and the federal government does not have a majority ownership interest in the company. APPS' governing body is elected by common shareholders.

However, the federal government has a significant ownership interest in APPS and guarantees its bonds. Given that these circumstances present a significant level of influence, it may be a candidate for related party or risk assumed disclosures.

Table 1: Summary Application of Proposed Standard on page 24 provides an analysis to illustrate how the proposed standard may be applied to determine whether APPS should be included in the GPFFR and, if so, what information should be presented.

U.S. Museum (Scenario A)

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Background

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

Governance Structure

The Museum is an independent establishment of the federal government and is governed by a Board of Trustees, known as the Museum Council. The Council has 130 voting members and 20 nonvoting members. Of the voting members, 110 are appointed by the President and serve 10-year terms and the other 20 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

Budget and Finance Considerations

The Museum is a public-private partnership which receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90% of operations and activities, with the remaining 10% coming from donor activities and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives – Supplemental Materials schedule Federal Programs by Agency and Account* (Budget). All donations are considered to be available for use unless specifically restricted by the donor or by time.

Application of the Proposed Standard

The Museum should be included in the GPFFR and should be consolidated. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. The federal government appoints the Museum Council. This circumstance demonstrates that the federal government exercises a level of control over the entity. Therefore, the Museum should be included in the GPFFR. The Museum is in the budget and primarily funded by taxpayers, and governance and accountability rest with the President and Congress. This indicates that the Museum is a core entity and core entities should be consolidated. No other component reporting entity has been assigned administrative responsibilities for the Museum. Therefore, the Museum is consolidated only in the government-wide GPFFR.

Table 1: Summary Application of Proposed Standard on page 24 provides an analysis to illustrate how the proposed standard may be applied to determine whether the Museum (A) should be included in the GPFFR and, if so, what information should be presented.

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U.S. Museum (Scenario B)

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4 Background

5 The United States Museum (the Museum) was organized to bring history and
6 lessons about the United States to individuals through educational outreach,
7 teacher training, traveling exhibitions, and scholarship. The Museum is intended to
8 be a self supporting operation.

9 Governance Structure

10 The Museum is a NFP governed by a Board of Trustees, known as the Museum
11 Council. The Council has 15 voting members. The Presidentially appointed head
12 of the Department of Federal Museums serves as the Council chairperson. Of the
13 remaining voting members, nine are appointed by the President and five are
14 selected and approved by the Council. All members serve ten-year terms. The
15 Council selects a Board of Directors for the Museum and appoints the Chief
16 Executive Officer.

17 Budget and Finance Considerations

18 The Museum is a public-private partnership which receives an annual
19 appropriation as well as private donations, rental income, and sales revenue.
20 Rental income derives from the Museum facilities. Rental of the facilities is
21 intended to support museum activities such that the museum can eventually be
22 self supporting. Presently, annual appropriations account for approximately 15%
23 of operations and activities, with the remaining 85% coming from donor activities,
24 rental income, and museum sales. The museum is listed the *Budget of the United*
25 *States Government: Analytical Perspectives – Supplemental Materials schedule*
26 *Federal Programs by Agency and Account* (Budget). The funding received from
27 donations is restricted to use by the Museum.

28 Application of the Proposed Standard

29 The Museum should be included in the GPFFR and should be disclosed. Although
30 the Museum is listed in the Budget, it is a non-federal organization receiving
31 federal financial assistance. The federal government appoints the majority of the
32 Museum Council. This circumstance demonstrates that the federal government
33 exercises a level of control over the entity. Therefore, the Museum should be
34 included in the GPFFR. Although the Museum is listed in the budget, the majority
35 of its funding is from donors and facility rental income. Therefore, little risk falls to
36 the taxpayers and the Museum is a non-core entity. The Department of Federal
37 Museums is assigned administrative responsibility for the Museum and should
38 include it as a non-core entity in its GPFFR.

39 Table 1: Summary Application of Proposed Standard on page 24 provides an
40 analysis to illustrate how the proposed standard may be applied to determine

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- 1 whether the Museum (B) should be included in the GPFFR and, if so, what
- 2 information should be presented.
- 3

1 **Firefighter’s Housing Limited Partnership**

2

3 Background

4 Agency 123 has been authorized to establish pre-positioned housing and
5 equipment storage facilities on federal land to ensure immediate and efficient
6 deployment of fire fighting resources in response to wildfires. To ensure the
7 program’s success, the enabling legislation specifically allows Agency 123 to enter
8 into a wide range of financial agreements with private-sector participants to provide
9 housing and equipment storage for the fire fighters. The agency has elected to
10 form a limited partnership with a private developer by establishing an agreement to
11 transfer federal land for the development of the facilities to the limited
12 partnership—Firefighters’ Housing Limited Partnership (FHLP). The private sector
13 partner receives a fixed payment from the partnership for the suit of management
14 services provided to FHLP as well as a performance incentive linked to the
15 operating results of the partnership.

16 Governance Structure

17 As part of the partnership agreement, Agency 123 has significant authority to
18 determine the policies governing the limited partnership’s activities and to affect
19 day-to-day activities such as in design and construction. Additionally, the agency
20 is required to authorize and guarantee the limited partnership’s debt. Furthermore,
21 capital and operating budgets require agency approval and financial transactions
22 are monitored on a monthly basis by the agency’s contract administration office.

23 Budget and Finance Considerations

24 Agency 123 entered into a 25-year ground lease with the limited partnership. The
25 partnership was created to solely develop, operate, maintain, and own, all housing
26 and storage units and facilities for 25 years. At the end of the 25-year ground
27 lease, the agency has the option to renew the partnership for another 25 years. If it
28 does not renew, via the agency’s residual ownership interest, all structures and
29 land revert back to Agency 123.

30 Application of the Proposed Standard

31 The partnership should be included in the Agency 123’s GPFFR (and if material in
32 the government-wide GPFFR) and should be consolidated. A substantial
33 ownership interest is present via the agency’s residual ownership interest. In
34 addition, circumstances demonstrate Agency 123 meets several control indicators
35 and therefore control with benefits exists which further supports inclusion in the
36 GPFFR. For example, Agency 123 has significant authority to determine the
37 policies governing the limited partnership’s activities and to affect day-to-day
38 activities such as in design and construction and the partnership’s sole purpose
39 and mission is to carryout federal missions and objectives.

40

- 1
- 2 The partnership should be included in the GPFFR and should be consolidated.
- 3 Ultimately, taxpayers fund the housing and risks have been assumed through
- 4 guarantee of partnership debts.
- 5 Table 1: Summary Application of Proposed Standard on page 24 provides an
- 6 analysis to illustrate how the proposed standard may be applied to determine
- 7 whether the partnership should be included in the GPFFR and, if so, what
- 8 information should be presented.
- 9

The Blue Mountain Observatory

Background

Agency XYZ owns the Blue Mountain Observatory complex in Arkansas that conducts scientific research in a wide range of fields, including the study of black holes intergalactic worm holes. Trouver, an independent, private lease-holding corporation specializing in equipment operations is the contractor currently operating all equipment at the Observatory under a 3-year management and operations contract. The contract re-procurement process is expected to generate a robust amount of competition and is expected to result in another 3-year contract award.

Governance Structure

Trouver is a large publicly-traded corporation deriving most of its sales revenue from contracts with commercial entities. All contract administration activities are handled by the corporate office located in Boston, Massachusetts. Agency XYZ has no ownership interest in Trouver nor does it exercise any control over the corporation's management operations. Moreover, there is no agency responsibility to oversee or manage the day-to-day operations other than routine contract administration functions.

Budget and Finance Considerations

Trouver, in its role as the equipment operator, has the contractual authority - with the agency's pre-approval - to enter into routine leases for equipment that it needs to carry out its functions at the Observatory. Agency XYZ, in turn, has the authority to reimburse its operator for those allowable lease expenses as the operator pays them. The agency also has the right to ask the operator to cancel the lease agreements early. The contractual agreement stipulates that any equipment used in the execution of the contract must comply with the government property provisions contained at Federal Acquisition Regulations (FAR Part 52.245-1).¹

Subject to agency approval and right-of-first-refusal, Trouver can either (sub)lease the assets to other customers or use them to develop financing alternatives. As part of the pre-award conditions, Trouver is not to seek external financing using any explicit or implicit government guarantee.

Application of the Proposed Standard

Trouver should not be included in Agency XYZ's GPFFR. Although Agency XYZ does have a contractual relationship with Trouver, the relationship does meet the inclusion principles.

Table 1: Summary Application of Proposed Standard on page 24 provides an analysis to illustrate how the proposed standard may be applied to determine

¹ Federal Acquisition Regulations, 52.245-1; Government Property. *Government property* means all property owned or leased by the Government. Government property includes both Government-furnished and Contractor-acquired property.

- 1 whether Trouver should be included in the GPFRR and, if so, what information
- 2 should be presented.

1

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

ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
ABC Department	3	Yes	No	n/a	n/a	n/a	Yes	Yes	n/a	Yes	n/a
Epsilon Corporation	5	Yes	No	No	Yes, the federal government demonstrates a level of control as each of the governing board members are appointed by the President and confirmed by the Senate.	n/a	Yes	Yes, Epsilon is listed in the Budget and although Epsilon does not receive appropriations but it is Congressional authorities that permit it to receive premiums and it is subject to the budget process which means Congress annually considers its financial operations and status.	n/a	Yes	n/a
Scholars University	7	Yes	Yes	No, Although some funding is received through appropriations the federal government does not have an ownership	No, Scholars' board of trustees elects its respective board members. While the federal government	No, Scholars generally provides market-based services and risks to taxpayers are limited.	No	n/a	n/a	n/a	n/a

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ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
				interest.	does have a level of influence, 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.						
Education Research Institute	8	Yes	Yes	No	Yes, the federal government appoints 13 of the 15 board members and the two remaining board members are federal officials.	n/a	Yes	Yes, The ERI Trust Fund is ultimately funded through taxes.	n/a	Yes	n/a
Mediation, Inc.	10	Yes	Yes	No	Yes, the federal government appoints all of the governing board members.	n/a	Yes	Yes, its mission is ultimately financed by taxes. Also, all of the governing board members are appointed by the President and confirmed	n/a	Yes	n/a

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ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
								by the Senate.			
Bicycle America, Inc. (Scenario A)	12	No	n/a	No, BA is owned by its 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.	No	n/a	n/a	n/a	n/a
Bicycle America, Inc. (Scenario B)	13	No	n/a	Yes, the federal government acquired 51% of the voting rights in BA.	n/a	n/a	Yes	No, BA primarily finances its operations through fees rather than taxes and its governing board members are elected by shareholders.	Yes	n/a	Yes
Chatham (Scenario A)	14	Yes	Yes	No	Yes, The federal government appoints the entity's board	No	Yes	Yes, Chatham is in the budget, primarily funded by	n/a	Yes	n/a

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ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
					of directors and evaluates performance			taxpayers, and governance and accountability rests with the President and Congress.			
Chatham (Scenario B)	15	Yes	Yes	No	No	No	No	n/a	n/a	n/a	n/a
APPS	16	No	n/a	No, the federal government only has a 45% ownership interest.	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.	No, but the federal government has a significant interest in APPS and guarantees its bonds. It may be a candidate for related party or risk assumed disclosures.	No	n/a	n/a	n/a	Yes
US Museum (Scenario A)	17	Yes	Yes	n/a	Yes. The Museum Council voting members, 110 are appointed by the President and 20 are appointed from among members of Congress	n/a	Yes	Yes. The Museum is in the budget and primarily funded by taxpayers and governance and accountability rests with the President and Congress.	n/a	Yes	n/a

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ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
US Museum (Scenario B)	18	Yes	Yes	n/a	Yes. The Council has 15 voting members. The Presidential appointed head of the Department of Federal Museums serves as the Council chairperson. Of the remaining voting members, nine are appointed by the President and five are selected and approved by the Council. All members serve ten-year terms. The Council selects a Board of Directors for the Museum and appoints the Chief Executive Officer.	n/a	Yes	No	Yes. The majority of funding is from donors and facility rental income (85%). Little risk falls to the taxpayer	n/a	Yes
FHLP	20	No	n/a	Yes, residual interest.	Yes. Agency 123 has significant authority to	n/a	Yes	Yes taxpayers fund the housing and risks have	n/a	Yes	n/a

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ENTITY	PAGE REF.	IN BUDGET?	NON-FEDERAL ENTITY RECEIVING FED. FINANCIAL ASST.?	MEETS OWNERSHIP PRINCIPLE?	MEETS CONTROL PRINCIPLE?	ENTITY MISLEADING TO EXCLUDE?	INCLUDE IN GPFFR?	A CORE ENTITY?	A NON-CORE ENTITY?	CONSOLIDATE?	DISCLOSE?
					determine the policies governing the limited partnership's activities and to affect day-to-day activities such as in design and construction and the partnership's sole purpose and mission is to carryout federal missions and objectives.			been assumed through guarantee of partnership debts			
Blue Mountain Observatory	22	No	n/a	No	No	No	No, a contractual relationship exists.	n/a	n/a	n/a	n/a

1