



***Reporting Entity* – Review and  
Questions and Answers**

**ANNUAL FASAB CONFERENCE**

**TUESDAY, APRIL 16, 2013**

# Disclaimer



- Views expressed are those of the speaker. The Board expresses its views in official publications.

# Overview

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- FASAB established concepts in mid-90's
- Standards now proposed to answer:
  - What to include in GPPFRs?
  - How to present information (all consolidated, some separately displayed or disclosed)?
  - Minimum Disclosures for the Central Banking System
  - What about “related” parties?
- Flowchart
- Illustrations





# Reporting Entity–Exposure Draft

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- **INCLUSION PRINCIPLES**
  - Include in GPFFR all organizations meeting any one of the three principles:
    - In the budget
    - Majority ownership interest
    - Control with risk or loss or expectation of benefit
- **Misleading to Exclude**



# Reporting Entity–ED

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Distinguish between consolidated entities and disclosure organizations

- **Consolidated entities** are supported by general taxes and non-exchange revenue. On-going decision making is more clearly linked to elected officials and risks and rewards fall to the federal government. Provide goods and services on a non-market basis.
- **Disclosure organizations** are somewhat independent from elected officials and may maintain separate legal identity or governance structure to insulate from political influence. They receive limited or no funding from general tax revenues so as to be financial self-sustaining or have relative financial independence. Limited risk and rewards fall to the federal government.



# Reporting Entity–ED

- Component Reporting Entity’s GPFFR include all organizations for which it is accountable.
- This is all consolidation entities and disclosure organizations administratively assigned to it.
  - Scope of the Budget Process
  - Accountability Established Within a Component Reporting Entity
  - Misleading to Exclude and/or Misleading to Include



# Reporting Entity–ED

- GPPFR Consolidation and Disclosure
  - Consolidation Entities- Information is to be consolidated in financial statements.
    - Consolidation entities apply GAAP as defined in SFFAS 34
    - FASAB and FASB based information should be consolidated without conversion of FASB-based information to FASAB basis
  - Disclosure Organizations- Information is to be disclosed in notes.
    - Emphasis on meeting 3 objectives: Relationship & Organization, Relevant Activity and Future Exposures
    - Factors provided to assist and examples of information
    - Disclosures should be integrated
    - Different year ends for disclosure organizations



# Reporting Entity–ED

- **Minimum Disclosures for the Central Banking System**
  - Focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. Disclosures should be integrated
- **Related Parties**
  - Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
  - Significant influence is the power to participate in the policy decisions of an entity, but not control those policies.



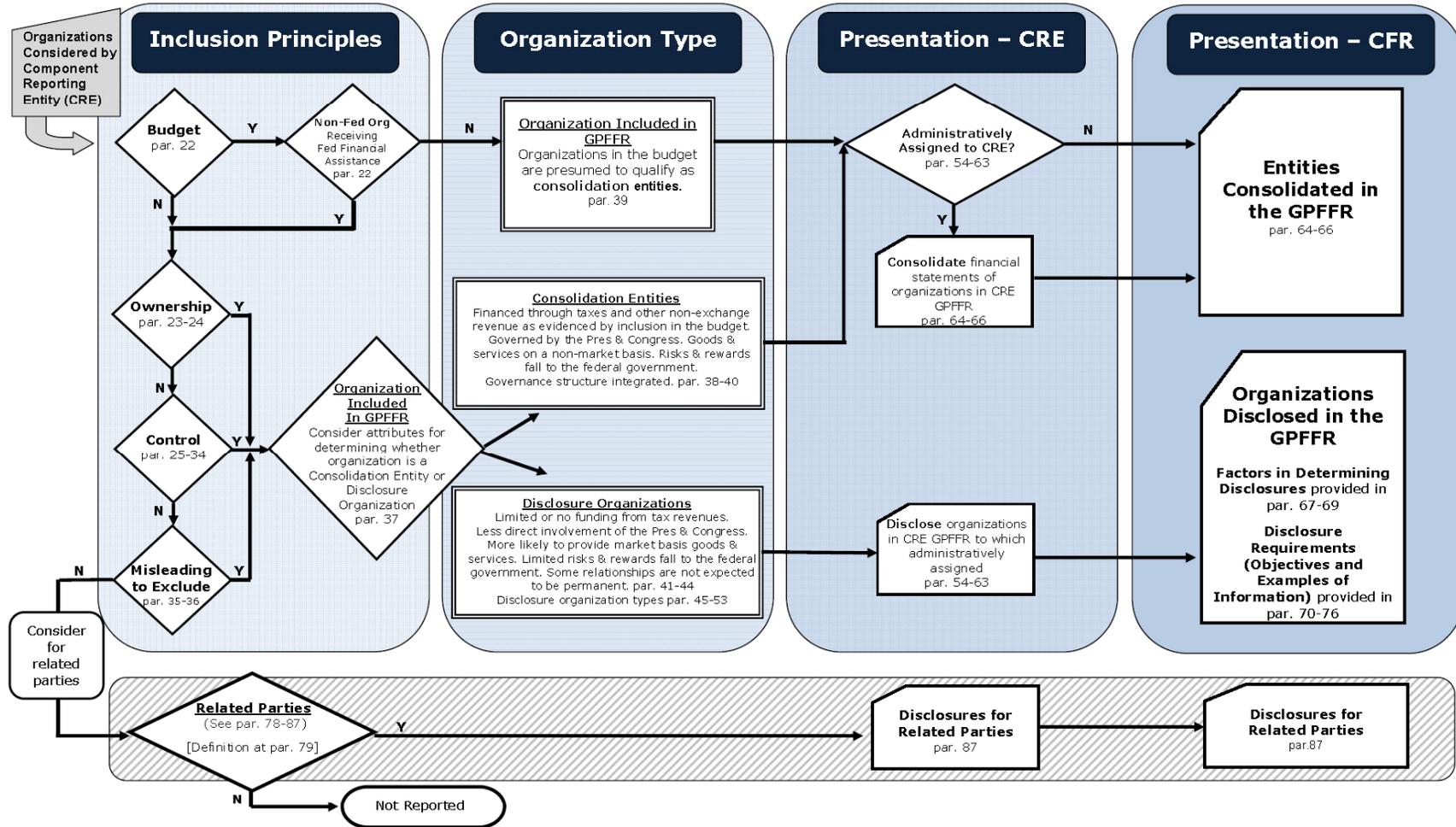
# Reporting Entity–ED

- Other Items
  - Amendments to SFFAC 2, *Entity and Display*
  - Flowchart
  - Illustrations



# Reporting Entity–ED Flowchart

FLOW CHART (Appendix B)





# Reporting Entity–ED Illustrations

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

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



# Reporting Entity—ED Illustrations

Epsilon Corporation was established as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Epsilon is governed by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. 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 in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” Epsilon 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 organization 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.



# Reporting Entity–ED Illustrations

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 governed 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.



# Reporting Entity–ED Illustrations

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 in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” 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.



# Reporting Entity–ED Illustrations

- 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.
- During the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands and 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 organizations and receives no ongoing federal support through the Budget.



# Reporting Entity–ED Illustrations

- The U.S. 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.
- 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 13 voting members and 2 nonvoting members. Of the voting members, 11 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 2 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.
- The Museum receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90 percent of operations and activities, with the remaining 10 percent coming from donor activities and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” All donations are considered to be available for use unless specifically restricted by the donor or by time. Furthermore, the Museum is not considered to be a non-federal organization receiving federal financial assistance.



# Reporting Entity—ED

- Alternative View



# Reporting Entity ED

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