



Federal Accounting Standards Advisory Board

February 13, 2014

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity--Tab B¹**

MEETING OBJECTIVES

- To resolve selected issues based on staff's analysis of the comment letters and public hearing participants' testimony on the *Reporting Entity* exposure draft by approving revisions to the proposed standards.
- Final approval of revisions made in response to input at the December meeting.

BRIEFING MATERIAL

The transmittal memorandum includes a discussion and analysis of selected issues and recommendations, beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page.

In addition the following items are attached:

Appendix 1: Relevant Board Minutes (by Issue)

Appendix 2: *Reporting Entity* Exposure Draft (as exposed, no changes are incorporated.)

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.

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

BACKGROUND

As you may recall at the August meeting, we held the public hearing on the *Reporting Entity* exposure draft. There was much feedback received from the participants. The feedback along with 39 comment letters identified areas that warranted additional staff review and potential clarifications to the proposed standards.

At the December meeting, the board discussed the following issues:

- In the Budget
- Misleading to Exclude
- Applicability to Judicial and Legislative Branches
- Term for Disclosure Organization
- Temporary
- FASB Based Information, and
- Central Bank Questions

The Board requested staff to bring back revised language for review for In the Budget and Temporary. In addition, the board requested staff to follow up with Treasury and its auditor on certain issues and provide the board with a recommendation on resolving the remaining Central Bank Questions. At the distribution of this memo, we are still communicating with Treasury regarding their response to the exposure draft. We hope to provide recommendations for your consideration late next week.

In addition, the following additional issues are presented in this memo along with staff recommendations:

- Component Reporting Issues
- Disclosure Entity Issues
- Organizations Partially in the Budget-Museums

Therefore, the issues remaining for future meetings are:

- Other Organizations- such as but not limited to, see comments for others:
 - Federally Funded Research and Development Centers (FFRDC)
 - Entities considered sensitive for national security reasons
 - Railroad Retirement Board
 - General Fund
- Related Parties
- SFFAC 2 Amendments
- Effective Date
- Appendices- Flowchart and Illustrations
- Editorial, structural, or clarified in BfC

NEXT STEPS

Staff anticipates discussing selected issues at this meeting and the April 2014 meetings, with the intent of a pre-ballot at the June meeting. The goal is to finalize a ballot by the August 2014 meeting so that it may be forwarded to the sponsors.

As noted above, staff plans to update the disposition of comment letters with the next distribution of materials so members may see a status and / or how they were addressed.

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. Issue- Follow-up on Open Items from December 2013 Meeting

- **In the Budget**

As you may recall, at the December meeting staff presented an analysis of 'outlier organizations' in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule (approximately 450 pages) entitled "*Federal Programs by Agency and Account.*" The review did not identify a large population of "outlier" organizations such that new characteristics were warranted.² However, staff determined there was a need for clarification within the proposed standards to address state/local governments and non-profits and the federal financial assistance footnote.

Also, an observation identified by staff was there had been confusion created by differences between *the Schedule and the Appendix to the Budget*. Several of the organizations discussed at the public hearing are actually listed as *Other Agencies* in the *Analytical Perspectives—Supplemental Materials* and are not identified under another specific Agency or program. For example, the Public Company Accounting Oversight Board, Standard Setting Body, and Securities Investor Protection Corporation are all listed as Other Agencies (that is, not under the Securities and Exchange Commission (SEC) heading). Another issue was raised by the Financial Accounting Foundation related to FASB receiving a 'support fee,' which is not considered federal financial assistance.

The Board unanimously agreed to retain the 'in the budget' as the first inclusion principle and generally agreed with the staff proposed recommendations subject to the changes suggested in the meeting.

The main concerns conveyed by members were the clarity of:

- par. 22b. ("Is a not-for-profit organization or corporation, such as") and which term – organization or corporation - should be used.
- the federal financial assistance footnote in addressing the issues, including the additional language for the support fee, which is not considered federal financial assistance.
- the provision that organizations must be assessed against the other inclusion principles

While drafting proposed language to address the concerns above, staff noted discomfort with expanding the descriptions and exceptions for items deemed 'other assistance.' One must consider that there could be unintended consequences and also by adding such cases there is the perception that we move away from a principles based standard to a rules based standard. Also, our expansion of "other assistance" to

² See December 2013 Board materials for a full description of the procedure and results.

include federally authorized support fees is not consistent with the Single Audit Act terminology. Therefore, staff decided to offer an alternative to modifying the language as discussed at the last meeting. This would also address a concern about whether we have considered all the possible outlier cases and if there are other possible exceptions that should be assessed. As we know, the budget is a changing document but the board agrees it is the most efficient starting point and anchor to get 95 plus percent of the organizations.

Considering, it appears there are few cases of these non-federal organization receiving federal financial assistance-- instead of trying to ensure that all known cases of "non-federal organization receiving federal financial assistance" have been explained in the standard, another alternative would be to allow all listed state/local/territorial governments and nonprofit organizations to be excluded unless one of the remaining inclusion principles is met. With this, the standard does not have to lay out all the ways an organization meets the definition of a "non-federal organization receiving federal financial assistance."

Staff does not believe if this approach is preferred this would necessitate re-exposure because the underlying goals are consistent, yet this is a more principles based approach. The two options are presented below:

Alternative 1

This alternative is the one discussed at the last meeting and has been shared with a staff contact at the FAF. [Alternative 2 is shown second because it is a new proposal, not based on staff recommendation.]

Revised Proposed Language (with changes MARKED):

In the Budget

22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "Federal Programs by Agency and Account"³ should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.⁴ An organization listed in the budget is a non-federal organization receiving federal financial assistance if it:

³ The Budget presents information in various forms for different purposes. Only the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account" should be used for determining where an entity should be included in the government-wide GPFFR.

⁴ ~~This Statement adopts the definition of "federal financial assistance" established in the Single Audit Act Amendments of 1996. However, an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance.~~ 'Federal financial assistance' is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food

a) Is a state, local or territorial government, or component thereof or

b) Is a not-for-profit organization

Comment [ML1]: Based on discussions with counsel and review of 26 USC 501: Exemption from tax on corporations from the Internal Revenue Code, it was determined 'not-for-profit organization' would cover all.

23. Notwithstanding the above provision regarding non-federal organizations listed in the budget, any entity meeting either of the next two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) should be included in the government-wide GPFFR.

~~23. Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) to determine whether they:~~

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Alternative 2

In the Budget

22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "*Federal Programs by Agency and Account*"⁵ should be included in the government-wide GPFFR unless it is both:

a) a state, local or territorial government (or a component thereof) or not-for-profit organization, and

b) an organization that does not meet either of the next two inclusion principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit).

commodities, direct appropriations, or other assistance. For the purposes of these standards, 'other assistance' includes federally-authorized support fees and other charges even if legislation granting authority to collect them indicates that the fees or other charges are not considered public monies of the United States.

⁵ The Budget presents information in various forms for different purposes. Only the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account" should be used for determining where an entity should be included in the government-wide GPFFR.

Basis for Conclusions

Principles for Inclusion in the Government-wide GPFFR

In the Budget

- A12. Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.”
- A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.⁶
- A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled “Federal Programs by Agency and Account” may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

Organizations Receiving Federal Financial Assistance

- A15. The schedule entitled “Federal Programs by Agency and Account” also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the “Federal Programs by Agency and Account” schedule sometimes names an organization to receive a “subsidy” and states “This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.” Thus, “subsidy” is the term used in SFFAC 2 to distinguish such “non-federal” organizations from the organizations intended to be included in the GPFFR.
- A16. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to define “subsidy” but concluded it was more appropriate to rely on the existing definition of “federal financial assistance.”
- A17. As exposed, ~~the~~ proposed language attempted to ensure organizations that receive federal financial assistance⁷ as defined by the Single Audit Act Amendments of 1996 but listed under an

⁶ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

appropriation in the schedule entitled “Federal Programs by Agency and Account” aren’t automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believed a means to confirm whether specifically identified recipient organizations are “non-federal organizations receiving federal financial assistance” was needed. When such organizations are listed in the budget, they should be assessed against the “majority ownership interest” and “control with risk of loss or expectation of benefit” principles before being excluded from the government-wide GPFFR.

A18. Generally, the Board believes preparers can identify organizations that are in fact receiving “subsidies” as described by SFFAC 2. The Statement provides that, although these may be listed in the budget, they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the “Federal Programs by Agency and Account” schedule or refer to other budget documents because such treatments may change.

A19. Although the number of organizations listed in the budget as receiving subsidies were minimal, respondents wondered (1) whether such organizations had to be subject to the requirements of the Single Audit Act to qualify, (2) whether federally authorized “support fees” would meet the definition of assistance, and (3) which listing within the budget should be used. Because the budget is a changing document and the standards should stand the test of time, the board explored addressing the issue without creating specific exclusions tailored to the examples respondents offered. The Board revised the wording to clarify the types of organizations that may qualify are those at other levels of government and not-for-profit organizations. Further, the Board did not intend to limit the exclusion to organizations subject to the Single Audit Act or to specific forms of financial assistance. Ultimately, if an organization listed in the budget is to be excluded it is because it is neither owned nor controlled as defined in these standards.

1a. Does the Board prefer Alternative 1 or 2 to modify the “In the Budget” inclusion principle to address concerns with the proposed standard?

⁷ “Federal financial assistance” is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

- **“Temporary”**

Staff presented the history and a summary of comment letter responses related to the “temporary” issue at the December meeting. The board:

- Agreed there needs to be a discussion of the temporary notion and how it relates to the disclosure entities earlier in the document. The Board generally agreed with the staff recommendations⁸ but provided feedback on the proposed language and requested staff to provide revised wording for approval at the March meeting.
- Opposed a member’s proposal to address temporary in nature in paragraphs 22 and 25 (so that temporary in nature would not be included in the entity or financial report).

Suggestions conveyed by members were:

- Move the proposed footnote to the body of the standard
- Consider using ‘connection’ rather than ‘relationship’
- At least one member did not agree with adding a 5th characteristic and would like to explore other ways by strengthening the language regarding disclosure entities in a separate paragraph and the disclosure entity section.

Note- Staff is presenting two alternatives below- one with adding a 5th characteristic, and one with adding the additional language to the last paragraph of the consolidation entity section. All other proposed language would be the same for both alternatives. The sections that differ are marked with comments ALT1 and ALT 2 in the margins. ALT 1 and 2 is simply based on the order they are shown, not based on staff recommendation.

Proposed Language (with changes MARKED):

20. This Statement provides three principles for determining which organizations should be included⁹ in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 36). The three principles are to be applied without considering whether the relationship is temporary or permanent. Instead, this is considered in determining whether the organization is a consolidation entity or disclosure entity.

⁸ See December 2013 Board materials for a full description of the proposed language, but in summary staff recommended a footnote to paragraph 21 that introduced the three principles established for determining if an organization is to be included in the government-wide GPFFR so that readers are alerted that temporary relationships must be assessed. Staff also recommended adding a 5th characteristic “connected through a relationship with the federal government that is expected to be permanent in nature” to paragraph 38 that describes consolidation entities as well as restoring discussion of temporary that was previously removed by the board.

⁹ “Included” means the information is either consolidated or disclosed.

21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:

[Text below shows revisions to both the consolidation entity and disclosure entity characteristics. Summary text would be affected as well but – for simplicity – such text is not presented in this memo.]

Consolidation entities

38. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization is:

- a. financed through taxes, and other non-exchange revenues.
- b. governed by the Congress and/or the President.
- c. imposing or may impose risks and rewards to the federal government.
- d. providing goods and services on a non-market basis.
- e. in a relationship with the federal government either:
 - i. for the entirety of its existence.
 - ii. for other than an insignificant amount of time, or
 - iii. in a way expected to be permanent in nature.

Comment [owner2]: ALT 1

39. Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.

40. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

41. Classification of entities for which the relationship with the federal government is not expected to be permanent, such as receiverships, conservatorships and other intervention actions, should be based on the characteristics identified in paragraph 38. Generally, entities owned or controlled by the federal government for intervention or liquidation purposes would be less likely, in aggregate, to meet

these characteristics. Hence, such entities generally would not be classified as consolidation entities.

Comment [owner3]: ALT 2 (note – If Alt 1 is preferred, this paragraph would not be present)

Disclosure entities

42. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as organizations in **receivership**. Under such actions, the relationship with the federal government is not expected to be permanent. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter, these organizations are referred to as “disclosure **entities**.”
43. Disclosure **entities** may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
44. Disclosure **entities** receive limited or no funding from general tax revenues. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the federal government. Disclosure **entities** may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹⁰
45. Disclosure **entities** may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. As noted above, in some cases, the relationship with the federal government is not expected to be permanent. The following disclosure **entity** types are presented to assist in identifying organizations that are disclosure **entities**. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

Once the approach within the standards is decided, we will propose additional wording for paragraph A31 in the basis for conclusions discussing the differences between consolidation entities and disclosure entities relating to temporary.

¹⁰ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

Reporting on Organizations—Consolidation or Disclosure

A30. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure entity. Consolidation entities ~~are subject to~~ should apply the hierarchy of GAAP established for “federal reporting entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure entities are not subject to the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A.31 Different means of presenting relevant information are provided for consolidation entities and disclosure entities.¹¹ The distinction between consolidation entities and disclosure entities is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure entities that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual organization is more useful than consolidation of the individual organization’s financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations’ financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

Comment [owner4]: Any change here would depend on the choice of alt 1 or alt 2. Wording is not suggested in this memo.

1b. Does the Board prefer Alternative 1 or 2 to address the concerns regarding the issue of ‘temporary’ in the proposed standard?

¹¹ Consolidated financial statements provided for “consolidation entities” will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

2. Issue - Component Reporting Issues

The Board proposed each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure entities administratively assigned to it. The proposal provides that administrative assignments can be identified by evaluating:

- the scope of the budget process,
- whether accountability is established within a component reporting entity, or
- rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles.

The Board recognized that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the above principles. In such cases, the organization may be excluded.

The Board asked respondents whether there was agreement with the overall principle that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure entities administratively assigned to it?

21 respondents generally agreed with the proposal and one respondent (SEC CFO) disagreed. (17 respondents did not answer the question.) SEC disagreed because of the misleading to include provision. SEC explained that paragraphs 61 and 62 state that there may be instances where the component entity's financial statements would be "misleading" if the principles in this proposed standard were followed. Although the desire to cover unanticipated future situations is understandable, the purpose of a principle-based standard is to provide principles that should be followed in all known instances. Providing an exception for a broad and undefined reason ("misleading") with no supporting principles or examples would primarily have the effect of creating long-term controversy between preparers and auditors about whether or not the principles in the proposed standard should actually be followed. If there are future unanticipated situations, they should be addressed as such situations have been in the past - by implementation guidance and/or amending the standards. SEC recommended deleting paragraphs 56c ("misleading to exclude and/or misleading to include"), 61 and 62.

The Board also asked if there was agreement that administrative assignments can be identified as provided in paragraphs 54-63.

20 respondents generally agreed with the proposal and three respondents disagreed (Homeland CFO, SEC CFO, DOL CFO) and 16 respondents did not answer the question.

- Homeland Security disagreed because they believed assignments should be codified in statutes or regulations and supported by budgetary appropriations. They believed professional judgment should play a role but not a "pivotal" role.

- SEC disagreed for the same reason cited above (the broad exception on “misleading to exclude/misleading to include”) and with no supporting principles or examples in paragraphs 62-63. SEC recommended deleting paragraphs 56c (“misleading to exclude and/or misleading to include”), 61 and 62.
- DOL CFO disagreed based on their interpretation of paragraph 62. They did not believe an organization may be excluded from the component entity’s consolidation so long as it is consolidated in another component entity or directly in the government-wide reporting entity. They believe that the decision on whether or not to consolidate an organization in the component entity should depend on the interpretation of the accounting standard and should not depend on the financial reporting of another component entity or on the financial reporting of the government-wide reporting entity. They believe that the following phrase in the last sentence of paragraph 62 should be deleted: “. . . so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.” DOL also recommended disclosure requirements for “misleading to include” entities in the consolidation; they believe that a brief disclosure may improve the reader’s understanding of the financial statements.

Other points raised by respondents

- PBGC noted strong support for the proposed standards' provision to exclude consolidation entities from component reporting entity reports when inclusion would be misleading, as discussed in Paragraphs 62 - 63. PBGC is an example for this exclusion provision. PBGC was legally established as a United States Government owned and self-financed Corporation, and administratively assigned to the Department of Labor (DOL). PBGC was authorized to operate independently, i.e., administered by a Director appointed by the President and confirmed by the Senate. In addition, PBGC has a Board of Directors consisting of the Secretary of Labor, the Secretary of the Treasury, and the Secretary of Commerce. PBGC prepares its own audited financial statements under the Government Corporation Control Act (59 Stat. 597, codified at 31 U.S.C. § 9101 et. seq.), and also submits financial data directly to the Department of the Treasury for the Financial Report of the United States Government. Accordingly, the consolidation of PBGC's financial results and operations with the DOL's General Purpose Federal Financial Reports would not be useful and would only mislead users of the DOL and PBGC financial statements.
- Treasury CFO agreed but reiterated coordinated guidance between central agencies may be required to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable.
- While DOD agreed with the proposal, they noted this area is likely the most challenging aspect for DoD. Each DoD reporting entity would need to determine who is receiving the funds and how DoD influences the organization, including any reporting requirements that DoD has implemented. Once the entities are identified, they would need to implement a process and/or policy to modify their financial reporting requirements to include the "consolidated" and/or "disclosure" entities.

- NSF suggested FASAB should consider adding reference to the “Master Government List of Federally Funded Research and Development Centers (FFRDCs)” to aid in determining FFRDC administrative assignment. The 2013 list can be found at <http://www.nsf.gov/statistics/ffrdclist/>.
- NASA suggested their interpretation of paragraph 58 a., Statutes or regulations establishing an organization states that it is assigned to or part of a larger federal organization would include the FAR 35.017 that establishes Federally Funded Research and Development Centers (FFRDC) and references the Master List of FFRDCs maintained by the National Science Foundation (NSF).
- KPMG explained they found it confusing to present guidance related to component reporting entities apart from the guidance related to the government-wide entity.
- Staff would like to point out there were many positive points offered by the respondents that supported the proposal and approach. For example just to point out some, OPM CFO explained the criteria appear to be appropriate and comprehensive. SSA CFO explained the evaluation of these documents by the component entity will provide insight if reporting of an organization is required. NRC OIG agreed and stated each component reporting entity should report organizations for which it is accountable. This is the same principle that’s applied in rolling up and consolidating GAAP financial statements. Without a full consolidation of the component reporting entity including disclosure entities, it’s GPFFR would not be complete making the government wide reporting entity’s GPFFR also incomplete. In order to get the full financial picture of the government wide reporting entity, all entities that make up that picture must be complete. Further, CCC explained the evaluation items listed in Para 56 provide very clear criteria, especially items a) and b). The Intelligence Community explained underlying principles provided for this are consistent with those outlined for the principles for inclusion in the government-wide GPFFR (e.g., budget inclusion, majority ownership, control, and misleading to exclude). This will ensure the financial statements present a complete picture of the entity. The FMSB agrees that administrative assignments can be identified as provided for in paragraphs 54 – 63. The important factor in this process is the decision to consolidate or disclose. The rationale provided in paragraph 59 a. and 59.b. provide a sound basis for making a decision.

Staff Analysis and Recommendations

Based on the responses, a majority support the proposal and very few identified concerns. The main issue brought up related to the Misleading to Include provision. While the SEC did not believe there were examples or guidance, paragraph 63. provides examples of indicators that it may be misleading to include an organization. Further, just as PBGC’s letter demonstrated, the provision would apply to them.

While staff understands DOL's point regarding their interpretation of paragraph 62, paragraph 62 states:

"There may be instances where applying the principles in paragraphs 57-60 to consolidation entities would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger organization while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

Staff interprets that the organization has to be misleading to consolidate and that is based on professional judgment and examples of indicators that are presented in paragraph 63. but the organization must also be providing the necessary information to ensure information eventually is in the government-wide reporting entity. There is an example indicator f regarding the submission of data to Treasury - "The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR." While these are examples, staff believes it could be viewed as redundant to put one of the indicators in paragraph 62 but doing so ensures it is not overlooked.

Staff believes paragraphs 62 and 63 could be clarified by explaining that this is a substance versus form issue. Staff suggests the following:

62. There may be instances where ~~applying~~ the principles in paragraphs 57-60 are met in form but not substance so that consolidation at the component reporting entity level would result in misleading presentation for ~~a~~the component reporting entity. In such cases, there will be little to no budget approval or oversight of the organization by the component reporting entity head and indicators that accountability has been established in the component reporting entity will be minimal. ~~For example, an organization may have been legally established within a larger organization while authorized to operate independently.~~ While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

63. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples¹² of indicators that it may be misleading to include an organization are:

¹² The indicators listed in 63 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be

- a. The budget submission is combined for procedural purposes only, as indicated by:
 - i. the budget request not being approved by component reporting entity management, or
 - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
- b. The component reporting entity provides no direct oversight of the organization.
- c. The organization's funding is separate from the component reporting entity's funding.
- d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
- e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time and submitted financial data directly to the Department of the Treasury for the government-wide GPFER.

• ~~The organization provides financial data directly to the Department of the Treasury for the government-wide GPFER.~~

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The other recommendation related to incorporating the FFRDC list as an aid in determining FFRDC administrative assignment. While staff does not believe the proposed standard should go to that level of detail, staff does believe it could be added into a paragraph in the basis for conclusion and conveyed to the team responsible for coordinated guidance between central agencies to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable.

Proposed Basis for Conclusions Paragraph

A60.While most respondents agreed with the proposal, several indicated the challenges for implementation and the need for guidance. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency. Central guidance may include more detail about

misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

what to consider for administrative assignments for each indicator in paragraph 58. For example, this guidance may refer to the Master List of FFRDCs maintained by the National Science Foundation (NSF)

2. Does the Board agree with staff's proposed language to address the component reporting entity concerns with the proposed standard? Specifically, does the board agree with the proposed revisions to:

- a. clarify paragraph 62 by explaining substance versus form**
- b. combine 63 e and f, but still keeping the example and reference in par. 62**
- c. reference the Master List of FFRDCs in the BfC**

Issue 3- Disclosure Entity Issues

As you may recall, the board asked respondents whether they agreed with the disclosure entity

- i. factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),
- ii. objectives for disclosures (see par. 72), and
- iii. examples provided (see par. 73).

21 respondents generally agreed with the proposal and 18 respondents did not answer the question. No respondents indicated disagreement with the entire question. However, considering this was a multi-part question (and each of those parts contained multiple factors, objectives or examples that were to be addressed by the respondent) there were suggestions offered and certain respondents noted disagreement with aspects of the proposal. Staff notes the following:

Factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69)

- Two respondents believed the factors should be removed (Homeland and KPMG).

Although Homeland CFO agreed with the objectives and examples, they disagreed with the factors to be considered because of the subjective judgments allowed.

KPMG suggested that paragraph 69 could be removed because they believed that:

- 69a (Relevance to reporting objectives) –are included within paragraph 72a and the related examples included within paragraph 73 (specifically 73a-c).
- 69b (Nature and magnitude of the potential risks/exposures or benefits associated with the relationship) –are included within paragraph 72b and the related examples included within paragraph 73 (specifically 73d).
- 69c (Disclosure entity views/perspectives) –They do not believe that the federal reporting entity would know the disclosure entities' views/perspectives of its relationship with the federal reporting entity, nor should this influence the level of disclosures included within the reporting entity's financial statements.
- 69d (Complexity of relationship) –additional required disclosures for a complex relationship should be included within the requirements of paragraph 72.
- 69e and 69f – They believe the concepts presented in paragraphs 69e and 69f are too subjective and should not be considered to influence the level of disclosures included in the reporting entity's financial statements.
- Three respondents recommended removing **par. 69c** "how a disclosure entity views its relationship with the federal government" [This is one of the 6 factors considered.] (SEC CFO, Treasury Bureau of Fiscal Service, and Treasury CFO) SEC CFO disagreed with 69c because the nature of this "influence" upon the

type and extent of information disclosed is not specified. They explained an example would greatly assist federal preparers to determine appropriate reporting for such situations. An example may be “issues stand-alone audited financial statements available to the public.” Treasury Bureau of Fiscal Service and Treasury CFO took exception with par.69c.because they did not believe this should have a bearing on what is disclosed. [Staff notes one could consider 5 respondents suggest removing par. 69c if you include the two respondents that believed the factors should be removed.]

Objectives for disclosures (see par. 72)

- Two respondents noted concern with the objective in paragraph 72c Future exposure: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure entity. (CCC CFO and Treasury CFO) Although CCC CFO agreed with all three objectives, they noted par. 72 c could be open for interpretation within the audit community and reporting projected future exposure may be difficult. Likewise, the Treasury CFO agree but believed “Disclosure of the amount of the federal government's exposure to gains and losses from future operations of the disclosure entity” appeared to be “forward looking” and recommend removing the phrase “or future operations” from paragraph 72(c).

Examples provided (see par. 73)

- Three respondents noted concern with the example provided in paragraph 73 e “A discussion of the disclosure entity's key financial indicators and changes in key financial indicators.” (SEC CFO, Treasury CFO and NASA) While agreeing with the example, NASA suggested 73e should provide clarity on the objective of this disclosure and how it relates to the reporting entity's financial report. Treasury disagreed with the example because audit assurance could be difficult and costly to obtain. SEC suggested that 73e does not appear to support any of the three objectives listed in paragraph 72. Instead, the SEC explained that 73e appears to focus on the assets, liabilities, expenses, gains and losses of the disclosure entity. [They noted this problem also applies to paragraphs 74, 75, and 76, which discuss the presentation of financial information for the disclosure entity.]
- One respondent noted concern with example provided in paragraph 73i. “the amount that best represents the federal government's maximum exposure to gain or loss...” (GSA CFO) While GSA agreed the examples provided were useful, they noted it is just unknown how maximum exposure could be quantified without some rules defining what the true limits to liability are.

Even considering the above, staff would like to point out there were many positive points offered by the respondents that supported the approach. For example just to

point out some, OPM CFO explained they determine disclosures are comprehensive and appear to support SFFAC 1 and DOC CFO stated all three should be considered to maintain objectivity. SSA CFO was also very supportive by responding the factors appear suitable and reflect the key aspects needed for appropriate disclosures and set forth in SFFAC 1 regarding relevance to reporting objectives. They also noted the objectives appear in-line with the desired goals and results of full disclosure and the examples provided are helpful in understanding the reporting required. HHS OIG explained the factors to be considered, the objectives and the examples provided show very clear concepts on how disclosure entities should be reported in the GPFFR and, if applied properly, will help preparers and auditors of GPFFRS provide adequate disclosures for organizations where the Federal government has a financial, material and/or managerial interest. In contrast to some of the other respondents, AGA FMSB believed the issue of future loss exposures is especially significant and we applaud the FASAB for requiring this information in 73.i.

Board history/ Minutes

See Appendix 1 for excerpts of relevant Board minutes on this topic.

Staff Analysis and Recommendation

Based on the responses, a majority support the proposal and very few identified concerns. The only concerns, which staff views as limited, was that:

- Two respondents suggested removing the factors in their entirety and three respondents believed **par. 69c** “how a disclosure entity views its relationship with the federal government” should be removed.
- Two respondents noted concern with the objective in paragraph 72c Future exposure: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government’s exposure to gains and losses from the past or future operations of the disclosure entity.
- Three respondents noted concern with the example provided in paragraph 73 e “A discussion of the disclosure entity’s key financial indicators and changes in key financial indicators.”

Staff notes the Board’s approach for the disclosure entities was to provide flexibility in meeting the stated objectives. This flexibility was viewed as most appropriate due to the different types of disclosure entities that may exist and therefore require broad and different information to meet the reporting objectives. The factors assist the preparer in determining the nature and extent of information to disclose. The factors are considered in the aggregate. While staff believes there is merit in maintaining paragraph 69c. and due to appearance, could see improvement simply by moving it to the last factor. Staff believes the way an entity perceives itself does affect the disclosures, for example-although no decision has been made regarding the Federal Reserve, if one reviews the current or previous note disclosure—some of the

information that is present is a direct relation to how they view themselves. For example, the note reads “The Board is an independent organization.....” Therefore, staff’s recommendation would be to move that particular factor to last as staff does understand some of the points made by respondents, and adding the phrase “because they have less direct involvement in governance” to clarify.

Although two respondents noted concern with 72c, staff recalls that ‘Future exposures’ was considered a prominent objective by several Board members and when drafting the factors, objectives and examples—one of the primary focuses was to ensure there was ample language to assist in this area. In fact, the Board recognizes that the first two objectives would be the most straight forward to address but the important information was objective c. Therefore, unless the board directs staff that there has been a change in their position of this, staff would not recommend a specific change in this area.

While staff recognizes there were a few comments on the examples, it is still important to point out these are examples of information that meet the objectives for the disclosure entities when considering the factors. Further, the Board recognized materiality is an important consideration regarding what gets reported and disclosed and this is discussed in the basis. Further, it is very important to make clear that these are not required disclosures. Instead of automatically deleting examples, it seems more appropriate to ensure the language is clear that these are examples.

Staff proposes the following changes, while recognizing the results and undetermined path for the Central Bank may ultimately affect this is as well if the board decides to remove the minimum disclosures for the Central Bank.

Staff Proposed Changes

Factors in Determining Disclosures

69. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure [entities](#). Beyond materiality, the following factors¹³ should be considered in making judgments about the extent of appropriate disclosures:

- a. **Relevance to reporting objectives** – Significance of the disclosure [entity](#) to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the reporting entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.

¹³ The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

- b. ***Nature and magnitude of the potential risks/exposures or benefits associated with the relationship*** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure entity's operations.

~~e. ***Disclosure organization views/perspective*** – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.~~

~~d.c. ***Complexity of the relationship*** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.~~

~~e.d. ***Extent to which the information interests, or may be expected to interest, a wide audience*** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure entity or its relationship with the federal government.~~

~~f.e. ***Extent to which there are no alternative sources of reliable information*** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.~~

~~f. ***Disclosure entity views/perspective*** – Information about how the disclosure entity views its relationship with the federal government. For example, whether the disclosure entity views itself as an extension of the federal government or operationally independent of the Congress and/or the President because they have less direct involvement in governance may influence the type and extent of information that is disclosed.~~

Disclosure Requirements

70. In addition to the factors presented in par. 69 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure entity should be presented separately due to its significance or aggregated with the information regarding other disclosure entities. If information is aggregated, aggregation may be based on disclosure entity type, class, investment type, or a particular event deemed significant to the reporting entity.
71. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure entity and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure entity. For example, a reference may be made to a note regarding investments in the disclosure entity.

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72. For each significant disclosure entity and aggregation of disclosure entities, information should be disclosed to meet the following objectives:¹⁴

- a. **Relationship and Organization**: The nature of the federal government's relationship with the disclosure entity(ies)
- b. **Relevant Activity**: Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. **Future exposures**: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure entity

73. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure entity's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.¹⁵ While no individual example is itself a required disclosure, nor are the examples required in the aggregate, they are examples provided to assist in determining the types of information that would meet the objectives. Therefore, the examples are not alternatives or substitutes for one another. Rather a disclosure that meets the objectives in paragraph 72 should be provided. In determining what information is needed to meet the objectives in paragraph 72, the factors in paragraph 69, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.

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- a. The name and description of the disclosure entity,¹⁶ including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
- b. The nature of the relationship between the federal government and the disclosure entity including relevant information regarding:
 - i. How any control or influence over the disclosure entity is exercised
 - ii. Key terms of contractual agreements, statutes, or other legal authorities
 - iii. The percentage of ownership interest and/or voting rights
- c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or

¹⁴ The objectives are not listed in any order of preference.

¹⁵ No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 72 should be provided.

¹⁶ For simplicity, information is described in relation to a single disclosure organization. Nonetheless, the information may be presented for an aggregation of similar disclosure organizations.

disposing of the disclosure entity and/or a statement that the intervention is not expected to be permanent

- d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
- e. A discussion of the disclosure entity's key financial indicators and changes in key financial indicators
- f. Information regarding the availability of the disclosure entity's annual financial report and how it can be obtained
- g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting entity to provide financial support to the disclosure entity in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
- h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the disclosure entity during the period
- i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure entity, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
- j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable

3. Does the Board agree with staff's proposed language to address the disclosure entity concerns with the proposed standard?

Issue 4- Organizations Partially in the Budget-Museums

Background

Certain entities, such as the Smithsonian, are partially on budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. Examples of these types of entities include the following:

- Smithsonian Institution
 - *National Gallery of Art
 - *JFK Center for the Performing Art
 - *Woodrow Wilson International Center for Scholars
- (*These were established by Congress within the Smithsonian, but are governed by independent boards of trustees. They also prepare separate standalone financial statements.)
- US Holocaust Memorial Museum

Currently, these entities present the budgeted portion as 'federal' or 'appropriated funds' and present the other funding as 'non-appropriated,' or 'trust funds' in their stand-alone reports. However, only the budgeted portion is included in the US Government-wide financial statement.

Generally, the component reporting entity statements are presented using the FASB's non-profit formats. The statements present federal funds, donor funds, and total funds (consolidated) in columns. Amounts are identified for restricted and unrestricted funds.

Responses

As you may recall, the board asked respondents whether the reporting entity should consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing art organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR.

5 respondents disagreed with the proposal. (#2 Holocaust, #13NASA, #18 DOD, #23 SEC CFO, #37 Stephen Wills)

In addition, while DOC CFO agreed with the proposal they suggested material non-federal funding should be distinguishable in the reports and disclosed in the notes.

Issues raised by respondents

- Commingling of donor/restricted funds would be misleading

The US Holocaust disagreed because it would be misleading to the readers of the report to include non-federal funding because the funds are not budgeted, owned or controlled by the federal government. They explained donations are not appropriated funds and are governed by the donor--not the federal government. The activities that they fund may not be taxpayer supported. In addition, there are other laws that govern tax exempt, non-profit organizations. They believe it would be more appropriate to footnote information about the non-federal funds in the government-wide general purpose federal financial report.

The SEC CFO disagreed because they believe it would result in reporting that presents a commingling of the federal government's resources with inflows that do not belong to the federal government. For example, they stated donations to non-profit organizations such as museums generally cannot be used for purposes other than the purposes indicated by the donor; if the donated funds cannot be used for the specified purpose, the donated funds must be returned to the donor. They believe donations to non-profit organizations such as museums generally would not meet the definition of "revenues" in SFFAS 5 because such donated funds cannot by law increase the net position of the federal government.

Stephen Wills (citizen) disagreed and stated "This position is in contrast to the tenants of consolidation accounting, that is to say, component reporting entities should be consolidated based upon funding source; otherwise, the reader will be misled in terms of comparing apples with oranges." He stated the funding sources to a governmental entity outside the federal government appropriation process cannot be "commingled" with appropriated funds because these funding sources are under the mandate of the donor in terms of purpose and time restriction.

- Contradictory to proposed standards

NASA disagreed based on the rationale that an organization for which a component reporting entity is accountable may not meet the criteria in paragraph 38 to be a consolidation entity. Given that, the organization would not be consolidated in the financial statements. NASA also disagreed with disclosing any information not directly related to the use of funds provided by the reporting entity and/or activity not directly controlled by the reporting entity.

DOD disagreed based on it seems contradictory to what is described in paragraph 43 (which relates to disclosure entities) of the proposal because an entity receiving donations, as opposed to appropriations, should be considered a disclosure entity, and not consolidated.

Other Points raised by respondents

KPMG while not noting agreement or disagreement to the question stated the information presented in paragraph A19 (see page 31 below for paragraph A19.) should be included in the standard instead of the Basis for Conclusion.

US RRB while not noting agreement or disagreement to the question, referred to their response to question 2a where they propose a new category for presentation- modified consolidation entity where an entity would have its net assets combined in the balance sheet. Staff will address this further under the Other Organizations-Railroad Retirement Board.

Staff Analysis

Staff notes the Board discussed most of the issues raised by respondents in October 2012- see the attached minutes at Appendix 1. The board believed that other funding would have been considered in the assessment that is performed to determine if an organization is a consolidation or disclosure entity, but in the cases an organization is determined to be a consolidation entity, the entity in its entirety should be consolidated. The Board also tried to address that it was expected that donations be included in the proposal by including footnote 35 to paragraph 64 (in the GPFFR Consolidation and Disclosure section) that states consolidated financial statements should include amounts and balances even if from "different funding sources (e.g., appropriations or donations.)"

Staff does not believe anything specific needs to be addressed in the standard regarding these types of situations. Instead, staff believes it is best to be silent because otherwise the language would simply be recognizing that certain entities, such as museums and performing arts organizations, may be in the budget and also receive significant funding from non-federal or other non-budgetary sources, such as donations. In staff's view, this is unnecessary and could be confusing. For example, this is very similar to entities listed in the budget, such as the Department of the Interior, which holds material amounts of non-budgetary Indian Trust Funds. However, staff believes additional explanatory language could be offered in the basis for conclusions.

While staff appreciates the concerns noted by the respondents that believed there may be some inconsistency within the proposed standards. This was not the intent and one should consider all paragraphs for Reporting on Organizations-Consolidation Entities or Disclosure Entities (paragraphs 37-44) when making assessments. The proposal is clear that all characteristics should be considered. Staff believes it would be flawed to point to one paragraph (such as paragraph 43) of the proposal because an entity receives some of its funding from donations, and concludes that it should be considered a disclosure entity. Further, par. 43 states disclosure entities "receive limited or no funding from general tax revenues." To the contrary, museums receive 50% or more in funding from appropriation.

Staff believes paragraphs 54 through 56 explain how the component reporting entities must include all consolidation entities and disclosure entities so both the component entity GPFFR and government-wide GPFFR are complete. Footnote 24 of the proposal and the basis for conclusion explains it is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure consistency. Therefore, staff believes by ensuring consistent treatment and by the fact the proposal requires such, there shouldn't be situations where an organization for which a component reporting entity is accountable may not meet the criteria in paragraph 38 to be a consolidation entity.

Meeting with CFO, US Holocaust

Staff met with Ms. Minnie Carmichael, CFO of the US Holocaust Museum, to discuss her comment letter and other issues specific the accounting at US Holocaust Museum. Ms. Carmichael provided an overview of the museums audited financial statements.

Ms. Carmichael conveyed that the museum and other similar "trust funds" for donations are viewed as traditional private sector trust funds. Within the budget, there is the general principle that traditional private sector trust funds should not be subjected to the budgetary constraints inherent in being included in the budget.

However, it was agreed that the funds are managed by the federal government because generally there is an authorization for the contributions and there are federal officials that have oversight of the private or donated funds. This is further supported when considering how the museum was established as well as the make-up of the governing board.

Based on discussions, Ms. Carmichael felt there is a strong public policy argument against including the non-appropriated portion because characterizing donations as belonging to the federal government may inadvertently cause donations or appropriations to decrease. People may chose not to contribute to the institution because of perceptions that funds are available to the government for general use or it may cause the appropriation amount to decrease because donations become more visible.

Ms. Carmichael explained one of her main concerns when preparing the letter was how the proposed standards would affect the preparation of her stand-alone financial statements. The statements are read by the museum stakeholders. She didn't want there to be any misconception by donors. Once she realized it would not necessarily affect the preparation of her stand-alone reports, she felt much more comfortable with the proposal, especially after understanding that GAAP may allow for presentation alternatives that display restrictions in the consolidated government-wide through existing standards.

Board history/ Minutes

See Appendix 1 for excerpts of relevant Board minutes on this topic.

Recommendation

In summary, after reviewing the history of the project regarding this issue, one consistent view held by the majority of the board has been that an organization that is included in the GPFFR should not be divided. Therefore, the status quo would change for certain entities that presently only submit the federal funds for consolidation in the government-wide report. Also, presently there are no disclosures in the government-wide report regarding such entities' consolidated operations (i.e., non-federal funds are omitted entirely from the government-wide report).

The reasons for continuing with this approach have been deliberated, but the board firmly believed that one should not "split the baby" when considering organizations for inclusion in the GPFFR. Other characteristics about the organization and the relationship with the federal government are considered in determining whether it is a consolidation or disclosure entity.

When considering organizations such as museums, it is important to note that generally there is an authorization for the endowments and there are federal officials that have oversight of the endowment. There is an ongoing relationship and ultimately those resources fulfill a public purpose.

Respondents concern that it would be misleading to present funds not available for other purposes may be resolved by considering how the funds might be displayed in consolidated statements. GAAP applicable to non-governmental entities, state and local governments, and federal governments provide for distinguishing between net assets and revenues whose use is restricted and those available for general use. Such distinctions may clarify the nature of donor amounts while recognizing that the reporting entity is accountable for the funds.

For example, when considering SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*, earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for a fund from dedicated collections are:

1. A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits or purposes;

2. Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the federal government's general revenues.

SFFAS 27 requires at the Government-wide level, revenue from dedicated collections, other financing sources and net cost of operations be shown separately on the U.S. Government Statement of Operations and Changes in Net Position. It also requires that the U.S. Government Balance Sheet show separately the portion of net position attributable to dedicated collections.

When considering the above, staff did not find strong persuasion to change the current proposal. The board had considered whether addressing the requirement would be appropriate, but instead opted to describe in the basis and elaborate with the footnote to paragraph 64 describing consolidation and that amounts and balances from different funding sources should be included.

However, staff believes certain language could be added to the basis for conclusion to explain how GAAP standards must still be applied and add clarity for some of the points identified.

Staff proposed language

Organizations Partially in the Budget

A19. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President's Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the "in the budget" principle. The Board further decided that such organizations should be presented in the same manner as other consolidation entities or disclosure entities, as discussed later in the Statement. Therefore, the language in the principle ("in the budget") does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization is either a consolidation entity or a disclosure entity and should be reported as one or the other, in its entirety. Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.

A20. Certain respondents noted concern because donated funds are for specific purposes and are not available for general government use. They believed full consolidation may be misleading. However, entities receiving donations

administer and are accountable for both appropriations and donated funds. Presently, the financial statements for museums receiving donations display consolidated totals along with separate columns for federal and donor funds. This presentation provides accountability for all funds under the entity's management while alerting the reader to restrictions. At the government-wide level, concern may be mitigated by similarly presenting donated funds as dedicated collections to the extent they meet this definition. Such reporting would reveal that donor funds are unavailable for general use.

4. Does the Board agree with staff's proposed language to address the concerns raised regarding the issue of entities partially in the budget in the proposed standard?

QUESTIONS FOR THE BOARD

1. **A. Does the Board prefer Alternative 1 or 2 to modify the “In the Budget” inclusion principle to address concerns with the proposed standard?**

B. Does the Board prefer Alternative 1 or 2 to address the concerns regarding the issue of ‘temporary’ in the proposed standard?
2. **Does the Board agree with staff’s proposed language to address the component reporting entity concerns with the proposed standard? Specifically, does the board agree with the proposed revisions to:**
 - a. clarify paragraph 62 by explaining substance versus form
 - b. combine 63 e and f, but still keeping the example and reference in par. 62
 - c. reference the Master List of FFRDCs in the BfC
3. **Does the Board agree with staff’s proposed language to address the disclosure entity concerns with the proposed standard?**
4. **Does the Board agree with staff’s proposed language to address the concerns raised regarding the issue of entities partially in the budget in the proposed standard?**

Board Minutes Related to In the Budget

Mr. Allen explained that what most of the Board members said is it seems like when you are talking about in the budget, there needed to be some essence beyond just listed in the budget. He suggested this would be fair guidance to provide staff as he thought that what this meeting was for is to give at least tentative guidance to the staff to go forward.

Mr. Granof explained it seemed some adjustment has to be made within the budget because we did not intend for the FASB to be in the government-wide statements. Some wording has to be incorporated to make sure that is not included.

Mr. McCall explained he thought in the budget should remain but we should try to deal with those non-federal agencies that do get federal funds. Mr. Smith explained we should review those where there is a special funding source that is not coming from the federal government. He suggested in doing so, we should go back and look at the budget and see if there are any other types of entities that are in the budget with some other special funding situation.

Mr. Showalter agreed with Mr. Smith's comment. We need to figure out how to identify where the federal government is a conduit, but it is not really appropriated money. Mr. Showalter asked that there was a challenge in SEC letter whether in the budget was even a principle or not. Ms. Payne explained the principle was shortened to "in the budget" but the principle that underlies it is that through the actions of elected officials, an organization is funded and the elected officials establish the boundaries of what they are allowed to do. The time, purpose, and amount of funding for an agency are established in the budget. Ms. Payne explained that in some venues there are other funding sources than the general tax revenues, but even the authorities are established by being in the budget.

Mr. Steinberg explained that we need to be careful with tying something to an appropriation because for example, all of the SEC's revenues come from the fees that they charge the registrants. It uses no tax monies whatsoever. It is no different, in that respect, than SIPC, FAF, and PCAOB.

Mr. Allen suggested that in the budget can be a more narrowly defined because much of what you were saying is in another criteria-- control. He explained that he doesn't believe you lose it if you narrowed in the budget and pick it up under control.

Ms. Payne acknowledged there is the possibility that you could combine it with control. However, for most you do not have to look at this laundry list to look through. Ms. Payne recognized that we have heard from SEC about three examples. However, there is another case that has come to staff regarding the audit for this year of an entity that has three non-profits that are 100 percent funded by appropriations. But because of a desire for them to appear independent, the money flows through a federal agency to the nonprofits. Ms. Payne noted there are odd incentives and odd structures that you simply would not see in the private sector. She cautioned against underestimating the number of permutations of entities that the budget eventually ends up funding.

FASAB's counsel, Ms. Hamilton explained that SEC receives an appropriation and then the fees that the SEC collect are considered off setting collections that are deducted off that authorization for an appropriation. It is a form of budgetary authority; an appropriation is a form of budgetary authority.

Mr. Steinberg explained they are in the budget, but what makes them different, it ends up being an appropriation which goes to SIPC and FAF and so forth, and is treated by them differently so to speak. In other words, SEC has to stay within the time, purpose, and amount of the appropriation. Mr. Granof explained the FASB's revenues are dependent on what they collect, whereas the SEC gets its appropriation and then what is collected just simply offsets it.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Reger suggested the Board defaulted easily to the budget because we needed a north star. He suggested the focus has been where the federal government has control--risk and benefit. Therefore, we should have some inclusion or financial representation. He suggested the Board went to budget and then to the other criteria, but he asked if they are not the same. Mr. Reger explained the budget was an easier way of defining organizations that we all thought automatically had the three criteria.

Mr. Dacey suggested that when we put out the exposure draft we said 'in the budget,' which appeared similar to in the budget from SFFAC 2, and we were comfortable with that. Certain entities, even though they were listed in that document, were not considered 'in the budget' under SFFAC 2. He questioned if with a principle-based standard, is it sufficient to make exceptions for these arrangements and is it clear how you identify organizations that qualify? Mr. Dacey noted we put in the federal financial assistance wording from Single Audit Act, but even that was raised as an issue by a number of other commenter's. Mr. Dacey suggested he would like to explore addressing the budget within the control principle. He explained that unless we can come up with clear guidance it may continue to be a problem.

Mr. Steinberg explained that it is coming back to the control so that may be a direction to consider. Mr. Granof explained he believes control is much harder to define. Mr. Steinberg suggested tying "in the budget" to the three elements of an appropriation, i.e. you cannot exceed the time of the appropriation, purpose of the appropriation, and amount of the appropriation.

Ms. Payne explained the things that are in the budget are based on budgetary concepts and the desire to identify the boundaries of federal government activity, the activity that is authorized by elected officials. For example, but for the actions of elected officials, an entity would not have the authority to get the money. They typically include it in the budget because it is through the actions of elected officials that they can rake money in from people that they would not otherwise be able to get the money from. For budgetary purposes, they want to know the size of the activity that is managed by elected officials. That is why things like PCAOB or the standard-setting body get mentioned in the budget.

Mr. McCall explained that there should be authority to appropriate money and to spend that money and then there should be sufficient money in the Treasury to cover that. He believes for the vast majority of what we are talking about here that that fits well. Mr. Mc Call said he believes if we have some anchor, the anchor is the budget document.

Mr. Dong asked if we are doing that because it is a shorthand for the control question or for some other purpose? Mr. McCall explained that it is the government.

Mr. Allen explained you could almost build from the three tiers: start within the budget, then move into another set of criteria, which would be control or something, however, you build it.

Mr. Dacey suggested it would be interesting to understand what is the delta between in the budget with the intended exclusions we have and control? Whether there is any type of principle conceptually. Whether there is anything that would be different. Mr. Dacey explained maybe there is a category or type of entity that would be in the budget, but not under control. If there wasn't much of a delta then you could go with presumptive decision. Ms. Payne asked about the judiciary branch--who are they controlled by? They are in the budget, but do we need to go through an analysis of are they controlled? Mr. Dacey explained he believes they are controlled as part of the federal government. Mr. Granof noted it raises a good point. They are part of the government-wide report because they are in the budget.

Mr. Showalter explained you can put the budget back into the control side as an indication of control. He believes it was a short cut because we did not want people to have to go through all those other criteria if it was obvious. Mr. Showalter suggested it could be the first item in determining control.

Mr. Reger explained that if it ever existed that in the budget was a control mechanism for something, we have lost that. Over the past 20 years, things are in the budget mostly because court suits have said if they are not in the budget, then you cannot do it. If the issue is really control then that may be a strong

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indicator, but I am not so sure that it really is the indicator. If you want to return to that, then we really do need to have conversations with OMB about once we do this, in the budget is going to mean a lot more.

Mr. Smith explained he does not think that we should break away from the budget to deal with the outliers. We should deal with the outliers because if we open up the control, we are less likely to get what we intend because you are putting an awful lot of items that people can go through and start making arguments about being in the budget versus what is control. Mr. Smith explained he would want to stay with in the budget because that way we know that the majority of the things are in the budget. He suggested we take a look at what type of things that could be in the budget that we want to exempt out.

Mr. Allen stated he was cautious about only relying on control since we structure control with risk or benefit and we don't have a complete definition and examples of "risk or benefits".

Mr. Steinberg suggested the indicator could be controlled by the budget--they cannot spend the money unless it is within the purpose, time, and amount defined by the budget.

FASAB's counsel Ms. Hamilton explained it is the individual statutes that define your purpose, amount, and time, not necessarily the budget. Ms. Hamilton explained there must be some form of budgetary authority. And that can come in the traditional appropriations, contract authority, or collections because there are different mechanisms to obtain budgetary authority.

Mr. Reger stated he believes the list is a great idea. He asked if we are at the fringes or is this the material items that we really do want to cover it by? It would at least leave us with the ability to identify the things that are in question. Mr. Reger suggested that staff would need help with this- possibly from the fiscal service and OMB. He also suggested that maybe the best way to do it is to go to the agencies. Ms. Loughan explained that it appears this would have been something GAO has probably looked at as part of their government-wide audit.

Ms. Hamilton agreed and stated GAO has looked at it before. She explained they get tapes from OMB that identify agencies, but there are even limitations with that because it is only up to a certain amount and only if statutes specifically mention them.

Ms. Payne suggested that staff review the budget looking for these outliers. Ms. Payne suggested staff bring an analysis of the outliers --ones that are black, white, and a few of the gray in between and look at the characteristics of them. She suggested through this process staff may be able to determine if there are characteristics that make them budgeted for, but not controlled. This type of approach may be preferred instead of a name like non-federal entity receiving federal financial assistance.

Mr. McCall stated the exercise could be helpful, but he thinks we already have determined in the budget covers ninety-eight percent of the federal government. As time goes on, these outliers may change so doing this exercise a year from now or five years from now could yield different results. He believes answering the cases you know about is helpful, but the idea that FASB and PCAOB should drive what we are doing doesn't seem appropriate. He believes the budget is still a good anchor.

Mr. Allen stated he liked the approach of determining if there a principle rather than dealing with the outliers name by name. Mr. McCall explained he agreed and perhaps those that we know about will lead us to the answer as opposed to searching for other organizations that might exist.

Mr. Dong asked with regards to in the budget, do we think that is the upper limit and we start to whittle down the list from there. And if that is the case, right now the principles are constructed A or B or C. He asked if it would simplify it in terms of A and/or B and/or C? Does that have that same effect? Mr. Dong suggested starting with the assumption that the budget is the upper limit and then you overlay the question of ownership interest and you overlay the question of control and does that get you to the subset that you are looking for.

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Mr. Allen replied he would not want to do that even though he agrees within the budget is the cleanest approach. He suggested there ought to be a principle that we are focusing on and gathering. He added that if in the budget is an indication of that principle or the concept as opposed to just using the words in the budget and then he considered looking to control.

Mr. Smith suggested that he could perceive something that does meet control clearly and should be in the entity, but it is not in the budget for some reason.

Mr. Dong explained that is why he asked the question--if you start with in the budget, does that capture the universe and more or are you missing part of the universe?

Mr. Allen explained the answer is both. It may capture something we do not want in and it may miss things that we do want in.

Mr. Reger stated he believes eventually you will fix that over time. But if you speak to the principles of control, risk, and benefit then it is just the order in which you do that whether that is a single test in budget and then a drop down test or is that the principle of why you started looking in the budget in the first place.

Mr. Allen stated that it appears most members agree in the budget is the primary indicator of these kinds of principles. Therefore the Board says yes to the first question.

Ms. Loughan explained she understood but reiterated the questions were high-level to open the door for comments and gather feedback. Mr. Allen agreed and stated the answer to that is yes, but staff has to do more work based on this discussion and recognizing that we have not even talked about some of the points.

Board Minutes Related to Temporary**Excerpt from February 2013**

Mr. Showalter commented that Mr. Steinberg is overlooking that these disclosures get in the reporting entity because of the control criteria.

Mr. McCall agreed.

Mr. Steinberg explained the control is temporary.

Mr. Granof noted that may not matter because paragraph 66 says that very clearly. Mr. Showalter explained that what Mr. Steinberg is suggesting is that they are not an appropriate part of the reporting entity, which he disagrees with. He believes they are very much appropriate because our criteria bring them in and once they are in, this is how to deal with them. He added that he believes Mr. Steinberg's position is inconsistent with what we concluded. Mr. Showalter explained that he believed staff did a pretty good job clarifying things as requested. We have the criteria for users; we need to be clear about what to do with them.

Mr. Steinberg explained that is where I disagree with you. They are going to go over these financial statements and use criteria that weren't out there.

Mr. Smith asked for clarification that if it isn't the disclosures Mr. Steinberg is complaining about, it is the fact the standard puts them in.

Mr. Steinberg agreed. He stated that he fully agreed that there needs to be disclosure of the risks and benefits, the transactions, and so forth. But he doesn't believe a standard called reporting entity should single out receiverships, conservatorships, and intervention entities and put them into the same category as all the other disclosure entities.

Mr. McCall asked would he create a fourth category or how would he pull them in?
Mr. Steinberg explained that he isn't creating a fourth category because we took them out.

Chairman Allen explained they meet the control criteria. Mr. Steinberg disagreed. Mr. Steinberg explained he would say that the standard does not apply for entities that were created or established by the private sector and the conservatorships now, even though they may have started out as government entities, laws were passed that made them private sector entities and people went out and bought stock in them.

December 2012

Mr. Steinberg explained as he read the ED, the failed banks are called a part of the government because the title of the standard is Reporting Entity. In addition, receiverships and conservatorships are included because the federal government may take control or ownership of failed financial institutions. Mr. Steinberg explained to him that is implying that they are going to be part of the federal entity. He noted we have reporting on those right now because of other standards in GAAP.

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Mr. Dacey explained his view that the equivalent of what is included in the reporting entity under SFFAC 2 is synonymous with consolidation entity in the ED. He also noted informed readers are looking at the statements and may be thinking that owned or controlled in most other standards setters are consolidated. Mr. Dacey explained he believed there was a need for heightened disclosure for these other entities to provide the reader with additional information.

Mr. Steinberg noted it is temporary ownership or control. Also, there are disclosures there because we have other standards that say we should have the disclosures.

Mr. Dacey explained the disclosures are there because of fair presentation and there are related parties and there are other reasons why this information is generally disclosed, but it is not all in the standards.

Ms. Payne agreed but noted it is also is not universal that the concept of “fair presentation” drove to a good result. For example, for Amtrak, which started as an intervention, the disclosure was minimal over the years and has gradually increased, but still does not meet the level that this exposure draft would require. So you don’t have the same outcome across the board with interventions at this point.

Mr. Steinberg noted once the project is final, Amtrak may not be considered an intervention entity. Ms. Payne explained that is another point because it is still being treated as an intervention after many years--actually classified as a related party and excluded. Further—preparers cannot rely on the private sector notion of fleeting being 12 months because most of these activities are not that brief. This leaves unanswered the question of when an intervention activity over and a government activity begun. Mr. Steinberg explained that criteria could be legislation has been set up to make it a federal agency rather than it being a private sector entity to say that something is no longer an intervention activity.

Mr. Showalter explained these entities should be in the financial statement, so this is not about whether they are in the financial statement. The AV is about what standards are going to address how they get into the financial statements. The AV authors believed interventions are risk assumed by the federal government.

Mr. Showalter explained that he believes people want to get the right disclosures and what convinced him was the fact we are splitting these types of transactions up and we have not dealt with all the disclosures. Mr. Showalter noted that at one time we had specific disclosures related to interventions but that went away when we went to generic disclosures.

Mr. Showalter also commented on the temporary nature—and we may say it is not a year, but it is two years or three years, and it is coming in or going out. He acknowledged it is a different intention here than in the commercial sense. Mr. Showalter noted the reason he supported the AV was to get other people’s views about whether we are treating these right. He explained we ought to at least get a question about whether we are handling these entities/transactions appropriately.

Mr. Allen explained he struggled with the notion that we are splitting them in half. He also noted concern with how related parties might be affected. Also, the AV uses the word standard overload, but he explained it is standard overload now to say go out and do all those different standards and use professional judgment to decide whether they need to be disclosed, as opposed to having clear guidance all in one place.

Mr. Showalter noted the project is supposed to be about relationships, but if you believe that, then you can collapse interventions into the upcoming risk assumed standard. Mr. Allen noted there is a separate project to look at that.

Mr. Dacey explained an example may be helpful--TARP acquired AIG and General Motors. Mr. Dacey explained there wasn't any question that we owned the majority of the stock in those two entities as a result of the intervention activities. At the same time there was more of a need when going through the reporting process to say more about GM and AIG, because the federal government had control and ownership, in fact there's even a paragraph in GAO's report about these entities. He explained the presumption by other standard setters that if you own or control an entity, it is consolidated. He added (excluding the conservatorships and receiverships). Mr. Dacey explained he believes if it is owned or controlled you would have a higher level of reporting beyond what would be reported. He noted if the Board does not agree with that maybe that is a good question to ask.

Excerpt from June 2012

Ms. Payne responded that one of the options the board discussed during its deliberations on the core/non-core distinction was providing an exclusion for situations where the federal government's intent was temporary control or ownership. She explained that the issue with having the exclusion was that the board would have to develop criteria for when that is no longer the intention—or the credible intention—of the federal government (e.g., Amtrak started out as an intervention but is still largely controlled by the federal government). She noted that the board decided not to provide an exclusion but staff can reintroduce the notion if that is the view of the board.

Mr. Dong responded that he does not see the benefit of doing that. Ms. Payne agreed, stating that she does not see the undesirable consequence of retaining the core/noncore distinction as it is. No one has said that there is a disclosure that would be missing if the core/non-core distinction is retained and no one has said that the proposed standards are so inflexible that you will end up with more disclosures than you desire for intervention activities.

Mr. Steinberg said that he thinks it would be inappropriate to imply that these organizations, which were never intended to be part of the federal government, are noncore entities. He said, to him, the way the proposed standards are written, it suggests that these organizations are part of the federal government. He again emphasized that New York City is not part of the federal government and saying that they are a non-core entity implies that they are.

Mr. Dacey noted that the distinction of core and non-core only drives the disclosures to be included in the financial reports and not how the entities will be characterized in the financial reports. He asked Mr. Steinberg if he thought the disclosures in the financial report were misleading.

Mr. Steinberg responded that he thought the disclosures were fine; it is how the entities are being classified in the proposed standard that is troubling to him.

Chairman Allen reminded Mr. Steinberg that the board deliberated on the number of categories to use and decided on two.

Mr. Steinberg responded that was the problem; when the board decided to have the same types of disclosures for all of these entities, they eliminated the different disclosures but left all of the different entities under one big category of non-core.

Mr. Dong asked Mr. Steinberg what information may not be provided as a consequence of the entities being grouped together as non-core.

Mr. Steinberg responded that he is not saying there would be any missing information; he is saying that the standard should not classify the entities as such.

Mr. Dacey asked if there was another word besides non-core that would address Mr. Steinberg's concern. Mr. Steinberg responded that he thinks the board should be very explicit about why the entities are there.

Ms. Payne asked if they could call them "consolidated entities" and "disclosed entities." Mr. Steinberg said that may be acceptable.

Chairman Allen asked Mr. Steinberg to work with staff to develop new language and propose it to the board for reconsideration.

Excerpt from August 2011 Minutes

Mr. Steinberg explained that at an earlier stage in the project, there were four groups of entities but now there are two—core and non-core accountable. Staff noted there are still the types of classes noted within the non-core to assist the preparer in making the determination, which includes the Interventions. Staff also noted that they probably aren't going to be labeled "non-core accountable" in the disclosures or financial statements, it is a way to make a distinction, but it is not required to be labeled in any particular format. Staff explained it is a fluid bucket of non-core. For example, look at Amtrak—and how long would one consider it to be temporary intervention. Mr. Steinberg stated Amtrak should be non-core since it was established by the Federal government and the Federal government owns 100% of the stock. He also explained he has concern with calling the intervention entities accountable when he doesn't believe they are accountable.

Ms. Payne suggested the word "accountable" could be dropped for brevity as at times we refer to them as simply non-core. They share the characteristics of the other noncore entities, so staff is not certain why there should be a distinction or a need to exclude from non-core. Chairman Allen asked if there were different disclosures required for them? If so, then he may understand having a different grouping but if the disclosures are the same then he doesn't understand making a different group. Mr. Steinberg noted that the distinction is the fact that these are private sector entities where the government intervened. Chairman Allen noted there are receiverships with private banks as well.

Mr. Steinberg agreed the disclosures may be similar or even the same, but he doesn't believe the interventions should be called non-core accountable entities, it infers the federal government sets them up. Mr. Dacey asked if it would be more appropriate to simply call them non-core as staff suggested earlier. Mr. Reger agreed it might address Mr. Steinberg's issue, if the word accountable was dropped. Mr. Jackson noted par. 42 that describes non-core accountable entities states "federal officials may rely on organizations that have a great degree of autonomy...." The Board believed that language needed to be revised to include others they

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may get involved with. For example, later paragraphs (49-51) include the specific references to the examples of types of non-core.

Mr. Dacey noted he had concerns with the word “rely” as well and would prefer that to be revised. He noted that our involvement in some of these were to achieve public policy objectives, such as preserve the economy. Mr. Reger noted that we do identify Federal Government Intervention Actions as a type within the non-core. Mr. Reger asked Mr. Steinberg if that specific identification wasn’t enough within the non-core. Mr. Steinberg explained he didn’t believe they should be included as non-core.

Staff noted it would be an exception. Mr. Showalter explained you would, in essence, be splitting it into a third category, but then bringing it back together because the disclosures would be the same. Mr. Steinberg suggested this category be for those actions related to private companies where the federal government intervenes to preserve jobs, preserve the economy, etc. Ms. Payne explained similar language was included in a previous draft and the Board collectively looked at it and said it was an exception.

Chairman Allen explained that if Mr. Steinberg had a specific proposal on wording then he could present it to the Board for discussion and vote if he chooses. At this point, he suggested the Board move on to the second paper.

Excerpt from April 2011 Minutes

Chairman Allen noted in par. 43 states

43. Non-core accountable entities may provide core federal government goods and services but are more likely to provide goods and services on a market basis. Non-core accountable entities receive limited or no taxpayer support. Accountability rests with the Congress and the President, but they have less direct involvement in decision making than is true in core government entities. Limited risks and rewards fall to the taxpayers. In some cases, the relationship with the federal government is not expected to be permanent.

He explained the last sentence gave him concern. He agreed with the attributes for core, but the last sentence relates to something different. He believes par. 43 should be a principle discussing the nature and characteristics of the core entities. He believes the last sentence is more specific to the temporary nature and interventions and it is dealt with in detail under the discussion of interventions. Mr. Jackson agreed and believes it didn’t necessarily add anything to the paragraph.

Chairman Allen asked if the Board would object to dropping it from the paragraph 43. Ms. Bond explained that she appreciates it may not fit within that particular paragraph, but as an alternative it might be added to par. 47 or 48 where one might expect to find it. She added the intent might get lost if it is first introduced in par. 56.

Mr. Reger explained it wouldn’t be considered a general criterion that is considered in the up front analysis if it is first introduced in par. 56. Mr. Allen agreed and requested that staff determine which paragraph it would be best placed in but there appeared to be a

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preference for par. 47 or 48 so that it is introduced at the beginning of the non-core discussion.

Meetings Prior to December 2010

Staff notes Board meetings prior to December 2010, the notion of temporary came up as a notion as an 'exception', but the Board voted for a principles based approach and not to have 'exceptions' in the standard—that is when the categories of core and non-core, now consolidation entity and disclosure organization were introduced.

Board Minutes- Relevant to Component Reporting EntityDec 2011

Ms. Bond replied that she thinks the sentence does go far enough. In looking at the example of PBGC and the Department of Labor (DOL), there are good reasons why they are treated as separate entities, even though someone could argue that, technically, the Employee Retirement Income Security Act (ERISA) put PBGC under DOL. She said to actually show those statements together (PBGC and DOL) would actually cause her a lot of concern and that is what was pointed out in the letter to Linda Combs in the appendix of the briefing materials.

Feb 2012

Mr. Steinberg said he would like to address instances where OMB has provided waivers to entities from being consolidated into component entities (e.g., the Pension Benefit Guaranty Corporation). He would like to determine if they can develop a principle that would provide for such instances. Ms. Loughan responded that staff had developed the paragraph on "Misleading to Include" (par. 8 on page 6 of Tab D) to address those types of situations.

Mr. Steinberg said that OMB had laid out criteria under which they would consider a waiver and asked if the board should include criteria in the standard or just leave the decision open to OMB. Ms. Payne responded that was one of the issues that got flagged for discussion at the next meeting so staff provide two options so members can discuss in more detail then.

Mr. Reger asked what other issues have been flagged for discussion. Ms. Payne responded that some of it will be clarity of wording. She noted that staff has plans to meet with some CPA firm representatives next week and hope to do some outreach to the preparer side as well. One issue she saw that they discussed earlier was the potential for non-core entities to be in more than one disclosure. She noted that the "Misleading to Include" paragraph is written the way it is written because it applies only "so long as" the entity is preparing its own GPFFR that would be consolidated at the government-wide level. She said that staff will develop that discussion along with the option to include factors as proposed by Mr. Steinberg.

Ms. Payne stated that, other than those few issues, she thinks most of the items for discussion at the next meeting will involve clarity of wording. She recognized the time that Ms. Loughan has spent developing the draft wording and stated that Option A is pretty well fleshed out and it is a matter of getting into the details at this point.

Mr. Dacey noted that par. 2 in Tab D talks about administrative assignments, which is consistent with what the board discussed at the last meeting. However, he struggled with pars. 3 and 4 and how they then relate back to par. 2. For example, if OMB says that PBGC does not need to be consolidated with the Department of Labor, does that mean you stop after par. 2 and do not go down to pars. 3 and 4. He stated that he struggled with the inter-relationship between pars. 2-4. He asked staff to consider whether this is a decision tree or step approach and how one should consider the paragraphs in relation to each other.

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Mr. Dacey also asked staff to consider the significance of materiality for disclosure of non-core entities—should it apply only at the government-wide level or should it apply at the component level. There are certainly a lot of disclosures about non-core entities that would disappear at the consolidated level due to immateriality. Staff explained component entity disclosure requirements have not yet been developed for the component reporting entity, but did not envision having different materiality considerations at the component entity reporting level than would normally be there.

April 2012

OMB Administratively Assigned Entities

Mr. Dacey noted that the board had discussed situations where OMB may administratively determine whether a core entity is consolidated under a particular component reporting entity but he was not clear how those situations fit into the criteria that were currently included in the draft ED.

Ms. Loughan responded that staff believed the example they had discussed in the past—Pension Benefit Guaranty Corporation (PBGC)—would be addressed by the “misleading to include” principle described in paragraph 59. She stated that staff had reviewed the factors that were considered in the OMB waiver that specifically addressed the decision about PBGC and looked at the criteria in the standard from that perspective. She asked if the board wanted more explicit guidance for situations where OMB administratively determines how an entity should be consolidated.

After a brief discussion by members, Chairman Allen asked staff to consider Mr. Dacey’s concern and come back with a recommendation at the next meeting.

Board Minutes- Relevant to Disclosure EntityOctober 2012

Ms. Payne explained staff spoke with Messrs. Steinberg, Mc Call, and Granof to discuss their concern with disclosures. Staff explained that their main concern with paragraph 69B (relevant activity objective) was they wanted to capture unusual actions taken by the disclosure entities. Staff explained the exact wording could be worked out, but it appeared something along the lines of the following could be added to 69B to address their concern: Nature and magnitude of relevant activity during the period and balances at the end of the period and particularly focusing on unusual actions taken by the disclosure entity.

Chairman Allen suggested that one would need some context to that--what are you asking for when you are just saying unusual?

Mr. Showalter explained there is no way an auditor can audit to the standard. He added that how can you look for things outside their normal mission? He did not believe it was auditable.

Mr. Dacey expressed the same concerns. He asked is it particularly unusual events they wish to ensure are reported. Mr. Dacey explained that he may want to know about the usual too if they were significant and relevant to the entity. He believes it is may be appropriate to provide an example paragraph 70. However, if we try to put in paragraph 69 objectives, then it is carried across and applies to every single disclosure entity we have. Mr. Dacey explained that is a wide range of disclosure entities and it might be a challenge. For example, General Motors--what unusual activities does General Motors have that you want to know about? Mr. Dacey explained there might be a problem with trying to spread it out to everybody else and that is why it may not be appropriate to add the wording to the objective. He explained that he is comfortable with providing an example.

Mr. Granof used as an example the FRS bailout of AIG. How do we ensure that is properly disclosed? And the trouble is that obviously it is within their legal mission. Otherwise they could not have carried it out, but it is unusual.

Mr. Dacey explained that he understood his point but his concern is that it should somehow tie back to the potential impact on the reporting entity. Mr. Dacey explained his concern is if not, then you are just saying whatever they do whether or not it affects the reporting entity. He added there could be a number of activities that take place that have no real impact to the reporting entity.

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Mr. Granof explained that is where there is disagreement. He believes what the FRS carries out affects the welfare of the country since it is part of the federal government in that it is a disclosure entity.

Mr. Dacey explained he was still trying to draw a relationship between the effects on the reporting entity in some way-- whether it is risks or some other nature, some other type of relationship that affects them.

Mr. Steinberg explained there is the reporting objective of stewardship --whether the actions of the reporting entity affect the well-being of the country.

Mr. Dacey explained he has a difficult time when he considers the other types of disclosure entities—for example, receiverships. He reiterated that is why he has more concern about putting it in par. 69 than in par. 70 because the principle needs to be fairly general and applied to a broad range of circumstances.

Mr. Steinberg suggested that is even more the reason as to why central banks should be addressed in the standards; they are so unusual.

Chairman Allen suggested that the Board vote on the proposal for the wording in paragraph 69B. After discussing the options and wording, there were three options for consideration:

- (1) Option includes unusual activity added to language
- (2) Option includes wording suggested by Mr. Steinberg
- (3) No change—ED language remains as is

Mr. Granof voted for Option1. Mr. Steinberg and Mr. McCall voted for Option 2.

The remaining members voted for Option 3 or to leave the wording for the objective as it is.

Based on the Board vote, the wording for the relative activity objective will remain as presented in the current ED.

Mr. Steinberg explained that he would like to propose new language for relationship objective in paragraph 69 A. He explained that at the last meeting, he had suggested organization as a separate objective. However, the decision was made by the board to combine organization with relationship. Therefore, he believes it should also be explained in the text. Mr. Steinberg explained that he has proposed wording to suggest what organization means. It says “the nature of the disclosure entity and entities' organization structure that provides them relative independence and insulates them from political influence” because that really is what makes it a disclosure entity and the nature of the entity or entities' relationship with the federal government. Mr. Steinberg

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explained it is the structure that provides them the independence and insulates them from political influence. If they did not have that independence and insulation from political influence then they really would not be a disclosure entity.

Mr. Dacey explained he had concern with the change because in a general sense across all the disclosure entities, we really want to know about the nature of the relationship and that would entail these other things about their structure as well. He added that he doesn't know getting into the details of the structure of receiverships or of our interventions and other things are as relevant. Mr. Dacey explained his concern is that we keep it at a fairly high principle-based level.

Mr. Dong suggested it is the relationship that matters, not necessarily the organization.

Mr. Granof suggested that he thought it would be important.

Chairman Allen stated unless there were comments, he would like the Board to vote. There were two options for consideration:

(1) Option includes wording suggested by Mr. Steinberg

(2) No change—ED language remains as is

Mr. Granof voted for Option 1. Messrs. Showalter, Steinberg and Mr. McCall voted for Option 1. The remaining 5 members voted for Option 2.

Based on the Board vote, the wording for the relationship objective will remain as presented in the current ED.

August 2012

The Board considered whether a new objective, "Organization," for the disclosures relating to non-core/ disclosed entities should be added. This was proposed in the alternate ED so that readers will understand the governance structure that differentiates the disclosed entity from consolidated entities. After discussion, the Board considered integrating the objective in several ways:

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Board Member	No new Objective—ED remains as proposed	New Objective for Organization Added	Add w/Relationship Objective
Mark Reger			X
Hal Steinberg		X	
Sam McCall	X		
Michael Granof	X		
Scott Showalter			X
Graylin Smith		X	
Bob Dacey	X		
Norman Dong			X
Tom Allen			X

The Board vote determined the organization title would be added with the relationship objective to clarify that the established objective addresses both organization and relationship.

June 2012

Question 1 – Do members have suggestions regarding the changes made to the disclosure requirements for non-core entities?

Ms. Payne stated that the first question relates directly to non-core disclosures, noting that staff left the last meeting with the impression that the members wanted the examples that were previously in paragraph 71 to be conditional requirements. Ms. Payne stated that staff first tried to set conditions for each item on the list (now 72a-j) and more than half of them would apply only “if relevant.”

Ms. Payne further explained that there appeared to be a need for different levels of disclosure based on different categories of non-core entities; for example, interventions, receiverships, and conservatorships may require a lower level of disclosure, then a huge bucket for the usual non-core, and then non-core that exercise sovereign powers of government. Staff decided to develop disclosures for non-core entities that exercise sovereign powers of government and allow judgment to drive the level of disclosure for the rest.

Ms. Payne noted that paragraph 71 of the current draft ED is intended to apply only to those non-core entities that exercise sovereign powers of government. She said that staff thought from the last meeting that it was the relationship to the federal government that members were most concerned about having a better understanding of, how the mission of those entities related to federal policy objectives, and the organizational structures, so paragraph 71 provides for more detailed disclosures about those relationships for “non-core entities exercising power reserved to the federal government as sovereign.”

Ms. Payne further explained that paragraph 71 does not waive the applicability of paragraph 70; paragraph 70 applies to all non-core entities and paragraph 71 provides more detail about 70a, upping the bar a bit for one segment of non-core entities. Ms. Payne said some members have responded that the requirements for relevant activity and future exposures in paragraph 70 may get lost so, in the next draft, it might be better to incorporate the requirements for relevant

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activity and future exposures into paragraph 71 so all three requirements are explicitly included for non-core entities exercising sovereign powers.

Mr. Steinberg responded that paragraph 71 requires additional information to be included and it seems to him that information should come after paragraph 72. He stated that paragraphs 70 and 72, which include disclosure requirements for all non-core entities, should precede paragraph 71, which includes additional disclosure requirements for only those non-core entities exercising sovereign powers.

Chairman Allen said he would support Mr. Steinberg's suggestion because it would address his comment to staff that paragraph 71d should add "in addition to other financial information disclosed;" that edit would not be necessary if paragraph 71 was moved below paragraph 72 that includes the requirements to provide additional financial information. Chairman Allen said he had offered that edit to staff because he did not want paragraph 71 to be viewed as "all I have to do if I am one those types of entities."

Ms. Payne summarized that members would like to move the additional requirements for non-core entities exercising sovereign powers currently in paragraph 71 after the examples in paragraph 72, and asked if members would like to repeat the requirements to disclose relevant activity and future exposures from 70b and 70c in paragraph 71. She clarified that this would not be adding any requirements for 70b and 70c; it would just be repeating for clarity that the objectives stated in 70b and 70c also apply to non-core entities exercising sovereign powers. There were no responses from members so Ms. Payne stated that staff would provide recommended language and placement at the next meeting.

Mr. Steinberg stated that the requirements should also state that the disclosures need to be meaningful and all in one place similar to what the board did for social insurance. Ms. Payne responded that she believes paragraph 69 addresses that for all non-core entities but can be repeated for clarity.

Mr. Dacey added that it might be helpful if paragraph 71 led in with a conditional "if" rather than "to ensure" to make it clear that the requirements in that paragraphs only apply to a certain set of non-core entities; otherwise, some readers might misunderstand the conditional nature of the paragraph.

April 2012

Non-core Factors in Determining Disclosures and Non-core Disclosures (with specific discussion relating to the Federal Reserve)

Staff explained the Board was having an open discussion and the plan was to discuss specific Board member recommendations and specific draft language. Staff noted the Board was looking at par. 67 "Factors in Determining Non-Core Entity Disclosures" and wanted to discuss revisions.

Mr. Steinberg explained 67d. 'Complexity of the relationship' could cover the Federal Reserve because it is complex, but he wondered if some wording could be added about it being core. However, Mr. Steinberg suggested that par. 70a. 'Relationship' should be expanded or tied back

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to par. 67d. to say the more complex relationships should be explained or somehow work in the notion that more should be explained.

Mr. Steinberg explained par. 70b. 'Relevant Activity' should be expanded to say it isn't just with the core entity, but it is also with organizations outside the core entity or federal government, including those on behalf of the federal government. In addition, there should be a robust discussion of how we got here in the basis for conclusion because right now the basis for conclusion mentions the Federal Reserve once.

Mr. Reger confirmed that Mr. Steinberg is trying to improve the disclosures. Mr. Steinberg agreed.

Chairman Allen explained par. 67c 'Non-core entity views/perspective' raises concern because it deals with how the entity views itself but he doesn't believe that is nearly as important as how the federal government views the organization in carrying out the mission.

Mr. Granof explained par. 71 is troubling because the wording "provides the necessary understanding of the non-core entity's relationship, activities, and future exposures specific to the federal government." He was concerned not only that they provide information about the information specific to the federal government but he would also like information about outside parties as well, especially if they are performing services or functions that would be associated with the federal government entity.

Chairman Allen noted that in par. 71a, there is the example "The name and description of the non-core entity, including information about its mission and organization" and this may be what he is referring to but it needs to be expanded to include the non-core portion as it relates fulfilling the mission. Mr. Granof explained it should also include information about outside parties.

Mr. Granof added we have a major entity that needs to summarize their financial statements or information. Mr. Dacey explained this relates to par. 71e. and he has concern with the potential audit costs for organizations that choose to include summary financial statements or condensed financial information for the non-core entity. He elaborated that he has concern with requiring the disclosure of numbers in another entity's financial statements because of audit issues.

Mr. Granof explained he didn't see how one could avoid the disclosure of numbers in these types of situations. He suggested the possibility of a link to the financial statements.

Mr. Dacey explained links are fine as long as they don't appear to be incorporating information by reference.

Mr. Showalter stated if you require a link it could be construed as incorporating by reference. Mr. Dacey explained he doesn't have a problem with putting it in, but making it a requirement is where it creates challenges.

Mr. Granof asked if Mr. Dacey was concerned with the information being there or the cost of the audit of the information. Mr. Dacey stated he was concerned with the cost and he doesn't have a problem with it being there as long as it is meaningful information.

Mr. Granof stated that he believed the Federal Reserve's assets and liabilities would be meaningful considering they are in excess of a couple trillion dollars.

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Mr. Dacey explained the disclosures are to be driven by risks and exposures and how they relate to the federal government—specifically how the Federal Reserve’s operations and relationship with the federal government expose the federal government to risk . He added the same approach applies to all non-core entities.

Mr. Reger noted that “health” as used in par. 71e is not a good term and would be difficult to apply. Staff notes in the revised draft the term “health” has been replaced with ‘indicators.’

Mr. Granof explained the Federal Reserve has the characteristics of a core entity but for certain reasons, which should be explained, we don’t believe they should be consolidated. However, they still perform essential functions of the federal government and there are assets, liabilities, revenues and expenses that should be disclosed.

Mr. Dacey explained that at the last meeting he thought the Board decided disclosing such information would not tell the reader what the implications were for the federal government. He believed the key was to tell the reader about the nature of the relationship, the relevant activity, and future exposures—which may or may not be best represented by providing summary numbers for assets, liabilities, revenues, and expenses or summary financial statements. Mr. Dacey added that he believes the draft ED provides for this key information and the flexibility needed to convey meaningful information.

Mr. Reger added that even providing a link to the other entity financial statement won’t provide a summary of the federal government’s exposure; this is something that has to be done by the federal government.

Mr. Granof elaborated that the Federal Reserve as the central bank performs core functions that are integral to the federal government, therefore its liabilities would be important to the readers of the CFR. Mr. Reger stated he believed the nature of the risk of those liabilities on the federal government is important.

Mr. Reger reminded the Board that the Federal Reserve has strong collateral requirement for loans that they make. Mr. Granof explained he believes it is more than that, he believes they are part of the federal government.

Mr. Dacey explained the bulk of the liabilities for the reserve banks are the deposits of the member banks, Federal Reserve notes, and US Treasury Deposits—so he was not certain what risk to the federal government would be in these liabilities considering one of the largest is owed by the federal government.

Mr. Granof reiterated he believes it goes beyond risk because he views them as part of the government and there may be interest in monetary policy and so forth. Mr. Reger explained users interested in monetary policy can read the financial statements of the Federal Reserve because that is where you will find that detailed information.

Chairman Allen explained he doesn’t see a disclosure related to all the assets and liabilities, shouldn’t it be related to the mission it is carrying out or related to the federal government, such as the holdings. Mr. Dacey noted that these are currently disclosed in the statements.

Mr. Granof asked about the assets of the Federal Reserve and Mr. Dacey explained the major ones include US Treasury Securities and Mortgage Backed Securities and Mr. Dacey explained that is also disclosed.

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Mr. Granof asked about the investments of the member banks. Mr. Dacey explained this isn't currently disclosed but it could be explored. He said that was a fair discussion as to how they are financed and capitalized, though it isn't as material as some of the other amounts.

Mr. Granof explained once this is covered, it appears most of the main assets and liabilities will be disclosed in a note, then everything has been addressed. There was discussion as to what is currently disclosed and not disclosed regarding the Federal Reserve Bank activity.

Mr. Showalter explained his concern is that if something happened to the Federal Reserve (despite its collateral stipulations) it would clearly come back on the federal government and ultimately the citizens.

Mr. Reger agreed it makes sense to disclose the risk associated with the relationship and the relationship should be described. Mr. Reger added that he thought that was where the Board ended last meeting as well, and that numbers would not necessarily provide that.

Mr. Showalter acknowledged he understood Mr. Granof's concern and believes some concern was due to the size of the Federal Reserve where trillions of dollars are discussed. Mr. Dacey noted approximately \$1.6 trillion is from the member banks. Mr. Steinberg asked where that figure comes from, and the Chairman noted it was established in law how member banks join and pay in capital. Mr. Steinberg wondered if the federal government would intervene if there were financial problems.

Mr. Granof expressed a preference for a schedule of the summary data in the note. Mr. Reger explained that the information might better be conveyed in a narrative because sometimes a schedule can be misleading and the narrative could explain the information. Further this is consistent with what was discussed at the last meeting.

Mr. Dacey agreed and added he has concern with including any numbers that aren't meaningful because it will drive audit cost up. Mr. Dacey believes it is most important to explain the relationship, put any numbers in context with the relationship, and explain the impact on the federal government.

Mr. Granof said he was confused. He had thought that numbers were already in the financial statements, but now it appears there is a problem with including numbers. Mr. Reger clarified that he had not objected to including numbers in a narrative.

Mr. Dacey explained he has a concern with cost benefit. He is comfortable with the numbers already included in the CFR, but not a complete presentation of a balance sheet for a non-core entity. Mr. Dacey added that they include many of the Federal Reserve numbers as discussed and even some that are immaterial, like those related to gold. All balances between the federal government and Federal Reserve are disclosed, but we agreed it should be in one note or integrated through references. Mr. Dacey reminded the Board that the information will be close to 12 months old so that is another concern regarding the numbers.

Mr. Granof explained that putting it in a table or schedule format is not critical, so he believes the Board may be in agreement. However, he would like to see a sample note or illustration.

Chairman Allen suggested that Mr. Reger continue working on the disclosure and the Board will see another draft. At this point, the Board will continue to focus on the standards.

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Ms. Loughan asked the Board to confirm if it wanted to make the suggested revisions to paragraph 70 as this relates to the objectives for the non-core disclosures. Staff noted these would change the focus slightly and wanted to be sure the entire Board approved the change since the objectives were approved several meetings ago.

Mr. Dacey noted concern with the expansion of the objectives. He stated the concern goes beyond the audit concern. He explained when he thinks of examples General Motors and AIG – it may be easy to describe the nature of the relationship with these organizations, but it may be difficult to describe how the organizations relate to the federal government mission or objectives.

Mr. Dacey explained he had concern with expanding beyond what the relationship is with the non-core entity. Chairman Allen suggested added the wording ‘where appropriate’ to describe the nature of carrying out the mission or functions and objectives of the federal government. Chairman Allen explained you wouldn’t want this type of disclosure for interventions, so there may be times when it wouldn’t be applicable.

Mr. Dacey explained that is why he views them as principles and they should be high level whereas the next paragraph offers examples of information that would meet the objectives.

Mr. Steinberg noted one of the requirements of the constitution is to “coin money and regulate the value thereof.” He believes the Federal Reserve is performing a federal function.

Mr. Dacey explained he isn’t trying to say whether that is true, he is trying to determine which information is most meaningful or more specifically—for the standard—what should be the objectives for the disclosures versus examples of information that meet those objectives.

Mr. Dacey explained his preference would be to keep them at high-level principles.

Mr. Showalter explained that several members believe there is more required when the entity fulfills a unique core purpose of the federal government. He asked if there is a way to allow for that without changing the objectives.

Chairman Allen asked if it would be preferred to leave par. 70 relating to the objectives as it is and make changes to par. 71 that provides the examples. Staff could work on wording to accomplish something related to core purpose of the federal government or contributes to the mission. Mr. Dacey preferred to use par. 71 to work in the wording.

Ms. Payne confirmed there may be a slight revision to the par. 71 by stating “if this applies then do this.” Staff will work on conditional requirements for the example information.

Ms. Loughan explained it could be similar to the language in the intervention paragraph 71.c. “For intervention actions, the primary reasons for the intervention and a brief description of the federal government’s plan relative to operating or disposing of the non-core entity (including timeframes) and/or a statement that the intervention is not expected to be permanent” The Board agreed this approach could be used.

The Board discussed the revised text should be clear that if the condition is met the disclosure is required.

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Mr. Steinberg confirmed the Board would not be making any changes to par. 70, although for more complex relationships, paragraph 71 would require more, e.g., organization of the non-core. The Board confirmed and that staff would be revising par. 71.

Mr. Granof asked how we were going to explain we were treating the Federal Reserve differently. He believes the reader will think the Federal Reserve is core, especially if the report states it performs a core function.

Chairman Allen explained non-core entities can provide core functions—one can meet the inclusion principles and be non-core while still providing a core function. The preparer and auditor came to or will come to the conclusion how a particular entity including the Federal Reserve reports.

Mr. Showalter explained that the Board still had not resolved his concern about the inclusion principles and non-core.

Ms. Payne stated she wanted to clarify; it isn't the function of the entity that is non-core. It is the characteristics and attributes of the entity that make it non-core. All of these entities have been set up to meet a federal purpose. The non-core entities are more independently governed and they don't rely heavily or directly on taxpayer funding. These are the reasons they are not consolidated.

Mr. Showalter noted other core attributes relate to the risk and reward to the taxpayer and core goods and services on a non-market basis—these are the two that led him to believe the Federal Reserve would be core. He reiterated that his point before lunch is that he isn't convinced the Federal Reserve will be caught in the non-core.

Ms. Loughan asked if he still questions whether the Federal Reserve would be included through the inclusion principles. Mr. Showalter stated he was not sure it would be.

Chairman Allen explained that is the first step, an organization must meet the inclusion principles then they are assessed against the core and non-core attributes for determination. An organization must be either core or non-core once they are included. Mr. Showalter stated the standard is not that clear and should be clarified. Chairman Allen stated if he could read the inclusion principles and still have a question if the Federal Reserve is included, then there is a problem.

Mr. Showalter explained he has a problem with pulling the Federal Reserve in under the Misleading to Exclude principle, as the speaker in February indicated he had done, because it's anticipated to be a rare event.

Mr. Dacey noted there is the question of related party and where the line is drawn. Chairman Allen noted staff has explained related party will be addressed at the next meeting.

Oct. 2011

Chairman Allen explained the Board would discuss the issue of *Revised disclosures for non-core entities*. Staff directed the Board to page 7 of the staff memo. At the August meeting, staff had presented revised disclosures incorporating an example for referring to separately

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published financial statements and also clarifying that examples provided in the standard were strictly examples of information and not specific requirements or required disclosures. In August, the Board requested that the non-core entity disclosures be revised to reflect 3 broad objectives (the nature of the relationship, nature and magnitude of the activity during the period and balances at the end of the period, and future risks and exposures to gains and losses) and the examples presented as types of information that could fulfill the three broad objectives.

Staff asked for the Board's feedback on the revised language for Disclosures for Non-core Entities—specifically if the objectives were articulated as expected and the examples of disclosures satisfactory.

Chairman Allen noted that earlier it was brought up that one of the most important pieces of information we are concerned in conveying is the risks and rewards regarding the non-core entities. He noted concern that this was listed as the third objective. He explained in reviewing the proposal wording which states:

For each significant entity and aggregation of entities disclose information to meet the following objectives:

- a. **Relationship:** The nature of the federal government's relationship with the non-core entity.
- b. **Relevant Activity:** Nature and magnitude of relevant activity during the period and balances at the end of the period.
- c. **Future exposures:** A description and, if possible, quantification, of the federal government's exposure to gains and losses from the future operations of the non-core entity.

Chairman Allen noted concern because he didn't see how a. and b. were as important as the information from c. He suggested revising so c. is primary, and the others are below it. He realized that background information was necessary, so that is why one might explain the relationship but the goal is to provide the information on the gains and losses.

Mr. Dacey explained he viewed a. through c. as objectives that must be met, and not a prioritization of objectives. Chairman Allen explained he viewed the information from c. as the most important while a. and b. are more background to help understand c. Chairman Allen offered that if there is no risk, he may not care about a. and b. Mr. Dacey explained he believes they are all important. For example, it is very important to disclose how much money we provided to Fannie and Freddie this year, which is accomplished through b.

Mr. Showalter explained that it is much easier to do a. and b. than it is to do c. Therefore, we may need to offer more information about this. Mr. Showalter explained he is supporting Chairman Allen's comments.

Mr. Jackson explained he was unclear what was meant by relevant activity as it seemed like it was an open ended statement and open for interpretation. Though based on the conversation regarding the Fannie and Freddie payments, it is clearer. He believes we should be clear what relevant activity is in the standard so people understand.

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Mr. Granof explained he was comfortable with the three objectives, for example when considering the Federal Reserve-wouldn't one want to know the activities they engaged in throughout the year. He added there are a lot of transfers back and forth, and that seems very relevant.

Mr. Jackson explained it should be clear that we are referring to relevant activity between the federal government and the non-core entity.

Mr. Steinberg explained when he considers the disclosures; he views the different relationships and the types of disclosures. There are relationships due to the fact we had to bail entities out. There are relationships because the organizations are set up in a quasi-governmental fashion; therefore there might be relevant activity that should be disclosed.

Mr. Reger agreed and explained one might want a different level of explanation or disclosure for the different types of relationships.

Mr. Reger noted the word "may" prefaces the list of examples, but he was concerned with the exhaustive list. He noted we started with risk and relationship, so he wasn't sure if all the information included in the list of the types of information to be disclosed helps.

Mr. Dacey explained he is comfortable with the staff proposed wording. He believes we currently meet the three objectives in the consolidated financial report. It is important to understand why we are in a relationship with the non-core entity. He added the balances and activity between the government and the non-core entities are critically important to understand what is going on. Naturally, exposures are very important. Mr. Dacey explained he thought they were pulled together in a nice and concise way. Further, based on the current notes to the financial statements, he believes the objectives would be met.

Mr. Shumacher explained he was comfortable with the three objectives. He noted that although he understood Chairman Allen's concern regarding c., he viewed them as presented in the order they would be found in the financial statements and not prioritized in any way.

Mr. Showalter explained he was comfortable with the three objectives. However he noted we need to be clear with the lead in to the examples to ensure we don't get more than the relevant information in the footnote.

Mr. Dacey noted that materiality is always an important consideration regarding what gets reported and disclosed. Further, the ED offers guidance and other factors for consideration in determining what should be disclosed for non-core entities.

Chairman Allen asked if there should be any revisions to the language.

The Board approved the language as proposed by staff for the disclosures for non-core entities.

Staff directed the Board to page 15 to discuss the Basis for Conclusions language. Staff explained this project to date has a long history and the decision regarding what to capture in the basis for conclusions can be a difficult one. Further, this has been a fluid project and many of the final decisions have only just been solidified; enabling staff to draft a basis for conclusions (BfC).

Therefore, staff found decisions about the level of detail and what should be related regarding the history, a bit challenging. However, as the title indicates the basis for conclusions should

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capture the rationale for those decisions of the Board that led to proposed standards. The details of the minutes will remain as a permanent record and further detail of deliberations and other ideas considered by the Board throughout the federal entity project.

Staff requested Board input if the BfC is at the level of detail expected and covered all the notions the Board believed pertinent to be included in the BfC. Staff noted that editorial comments may be directed to staff after the meeting. Staff is seeking approval of the overall structure, detail, and rationale proposed.

Mr. Steinberg noted there had been changes in what the Federal Reserve does since SFFAC 2 was written. The Federal Reserve now makes loans and participates in other activities it did not do before. They are not the same Federal Reserve that existed in 1991, and he believes this should be put in the basis for conclusion.

Mr. Reger stated the fact we are rescinding the Federal Reserve paragraph has nothing to do with their suggested change in activities, we are rescinding because we are going to a principles-based standard. The Board has not deliberated on the functions or activities of the Federal Reserve.

Mr. Steinberg explained there might be some push-back if we don't offer some explanation. He added if it was good enough to not report them in 1991, why isn't that good enough now.

Mr. Jackson noted we didn't make a decision regarding how the Federal Reserve would be reported.

Chairman Allen suggested the Board go to a vote on the Basis for Conclusions.

August 2011

Ms. Loughan directed the Board to the second issue "Revise the required disclosures regarding non-core entities, specifically incorporate an example for referring to separately published financial statements." Staff explained the Board requested staff to include a reference to non-core entity financial statements in the examples for non-core disclosure requirements and to clarify that the items listed in subparagraph a.-d. are examples of information that may be disclosed and are not specific requirements.

Staff explained the reference was added to the list of examples and the preamble to the list of examples was revised so it was clear the examples are not required. A footnote brought additional clarity the examples were not required as it stated "No individual example is itself a required disclosure. Therefore, the examples are not alternatives or substitutes one for another. Instead, a disclosure that provides an understanding of the potential financial impact should be provided." Ms. Loughan opened the discussion for Board member questions and feedback on the issue.

Mr. Steinberg noted the change was clearer on these are examples and not requirements, but he believed the geography could still use adjusting. He noted the first one listed was summary financial statements and he didn't want to see the CFS inundated with summary financial statements. As of now, we are not including summary financial statements for any entity, so he doesn't see why we would. In addition, the key information we are looking for regarding these

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types of entities is what is the risk and potential financial burden to the federal government coming from these types of entities and that should be listed first. He explained readers might not be able to interpret summary financial statements and gather the information necessary from them versus a few sentences conveying what the risk and potential financial burden is to the government. Therefore, Mr. Steinberg suggested moving c. and d. up in the list of examples information.

Chairman Allen explained he didn't oppose the change in geography, but he did support maintaining the summary financial statements in the list of examples because there may be an instance where that information may be important. For example, if one decides the Smithsonian isn't consolidated then one may be concerned about the financial health of that entity and summary financial statements may be important. Mr. Steinberg explained that seeing summary financial statements may not always explain all the information.

Mr. Jackson explained he had concern with par. 3 and 4 on page 8 of the staff memo. He noted par. 3 states:

"For any core government entity transactions with the non-consolidated non-core accountable entities (which are accounted for by the core government entity in accordance with the GAAP hierarchy established in SFFAS 34), a summary of amounts reported in the core government entity financial statements and the basis for determining the amounts reported."

He explained this creates a huge burden as the core entity must report the transactions with the non-core entities. He believes this is a huge disclosure requirement.

Chairman Allen explained it wasn't transaction based as it stated the "amounts" reported in the financial statements. Mr. Dacey noted he had some concerns as well but perhaps it might need to be reworded to be clearer. Mr. Jackson noted concern with "transactions" and believed that should be revised and the fact this information has to come up stream creates a huge burden on agencies and a significant requirement.

Chairman Allen explained he believes what is important is information such as total balances derived from many transactions rather than amounts for individual transactions. Staff noted that the language may need to be revised to be clearer. Mr. Dacey noted that he isn't opposed to amounts arising from transactions being included; he just wanted to be clear that it might expand what is being disclosed. The challenge is ensuring the language is appropriate so we don't unintentionally expand disclosures. Staff noted the materiality provisions would still apply and it wasn't the intent to include individual transactions. Mr. Jackson explained he wasn't arguing that something shouldn't be disclosed he was more concerned with the burden on agencies and the clarity of the language.

Mr. Steinberg reiterated he is more concerned with the risk to the federal entity, the details of the transaction about the events that have happened aren't as important. Chairman Allen explained he believes there is importance to information such as the total investments in a particular non-core entity.

Mr. Jackson explained that par. 4 states

"The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the non-core entity, including how the maximum exposure to gain or loss is determined. If this cannot be quantified, that fact should be disclosed."

He noted the notion of "maximum exposure to gain or loss" should be explained further. He stated this gets back to risk assumed as it may be something we can't say anything about or quantify. Mr. Jackson explained this is a critical paragraph and there doesn't appear to be a lot

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of explanation to it so it leads to confusion with par. 5. Mr. Jackson explained that he thought pars. 3 and 4 required some clarification.

Ms. Payne explained par. 4 does state that if maximum exposure can't be quantified, disclose that fact. She also noted that par. 3 and 4 are both necessary for example with Fannie and Freddie—the Investments are reported which satisfies par. 3 but the maximum exposure to risk or loss is very different which would satisfy par. 4.

Ms. Payne asked if the Board wanted staff to write about acceptable methods to measure maximum exposure. Mr. Jackson explained if the federal government created an entity then it may need to be looked at in a macro sense versus a micro sense. He explained the federal government may create a non-core entity but the principal business of that entity creates a risk that the federal government may need to explain. Mr. Jackson noted that par. 4 should explain this whereas par. 3 is more at a micro level where it discusses transactions and balances between core and non-core entities. Staff noted the language could be improved but this is for material balances at the government-wide level and all of it was supposed to be at a high level.

Staff noted the word “transactions” may have caused issue but there was a problem with people understanding these are events that have already taken place, and these have been captured so tell us in the aggregate what that amount is. Chairman Allen explained if for example half the receivables are with a non-core (unconsolidated) entity that would be important to know.

Mr. Granof noted that in standard setting, one starts with the general then move to the specific—one sets standards then apply them to specific or individual entities. He noted that doesn't appear to be what is happening. The focus shouldn't be on entities like the Smithsonian, it should be on the big entities. The critical issue should be how entities will be disclosed and it should be on a continuum with more disclosure versus less. Mr. Granof noted that yes, you would want the risk disclosed but for some you would also want the transactions or balances disclosed because for some of the non-core entities, they are much more “core” like than non-core.

Mr. Jackson explained he believed the primary focus should be on the risk, though he believes the transactional data may be indicators or reinforcements of the heightened risk. He added that perhaps the order of the paragraphs 3 and 4 need to be reversed and it may bring more life to par. 5.

Mr. Steinberg explained that some of the confusion may have resulted from the change from the original definition of several different categories to now where we have one category called non-core. He explained perhaps we need to revisit the previous thought of different groups where the disclosures would be different. Chairman Allen explained he didn't believe any of the Board members would question that the focus is on risk.

Mr. Dacey explained he was supports par. 3 and the financial statements currently include this type of information for entities. He believed the information was important, just as the information required in par. 4 that addresses future exposure. Mr. Dacey explained he was supportive of the general approach.

Mr. Steinberg noted that it probably depends on the type of entity—for some par. 3 information may be more important where for others, information for par. 4 may be more important.

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Chairman Allen explained he believed par. 4 and par. 5 were probably more important but he understood the value of the information in par. 3.

Mr. Granof explained it would be helpful if there were examples for each type of information and the type of entity it would be for which it would be appropriate. Mr. Dacey noted it gets back to relevance and importance in the arrangements. He explained we disclose both, for example we disclose a gain or loss during a period and balances at the end of the period and the maximum amount of exposure as of the end of the period which may be different than the investment.

Mr. Showalter explained that par. 4 and 5 are very related to each other as par. 5 provides examples. Therefore he believes the order of the paragraphs is fine.

Mr. Showalter also noted that par. 3 was necessary but for different reasons.

Mr. Jackson explained he better understood the reasoning for par. 3.

Staff asked if there were any concerns with par. 5 or the specific changes made. Mr. Dacey noted that he would reorder them. He thought it would be better to put them in order in which they were likely to occur—c., e., d. a., and then b. Mr. Dacey explained that he viewed it as 3 broad objectives that we were trying to achieve through the disclosures and perhaps the examples were types of information that would fulfill those three broad objectives in a flexible way. Chairman Allen asked if the Board objected to staff taking that approach.

Mr. Reger asked Mr. Dacey to summarize what the three objectives were. Mr. Dacey explained the three were the nature of the relationship, nature and magnitude of the activity during the period, and the future risks and exposures. Mr. Dacey added that the examples in par. 5 are examples for the three broad areas and some things may overlap and it could be a couple paragraphs that integrated the information.

Board Minutes Related to MuseumsOctober 2012

Mr. Steinberg explained the next issue is with museums.

Staff explained that museums are addressed most clearly in the basis for conclusion, but also in an illustration and a question was added based upon the discussion last meeting.

Mr. Steinberg explained he believes it must be addressed in the standard. He explained that it is the absence of something that leads to inconsistency in the reporting of the museums and performing arts organizations. Mr. Steinberg explained he is concerned that right now there is inconsistency in reporting among the museums and the fact that some of the museums are reporting only half of their activities to the Treasury Department. The consolidated financial statement report only has the appropriated funds and doesn't report on the activities which are financed by the donated funds.

Mr. Steinberg explained there should be explicit guidance whether organizations are funded with appropriations, but also receive a significant portion of their funding through donations, that states it should be included in the GPFFR in their entirety. He believes if we do not address that, inconsistent reporting will continue.

Staff explained they tried to make it clear based on the Board's direction and included a discussion in the basis for conclusion.

Mr. Granof explained he had the same concern and thought it appeared we were setting standards in the basis.

Ms. Payne explained it was drafted this way to explain the outcome of principle-based standards, but if the Board would like a paragraph in the standard that is explicit about museums or entities with other sources of funding, it could be added. She noted there are a lot of entities that are allowed to collect funds.

Mr. Steinberg explained it should be for significant ones -- significant to their operations.

Ms. Payne agreed, but noted that the Smithsonian is approximately 85 percent appropriated funds. Is 15 percent donations considered significant? Staff can spend time on it and draft wording if that is what the board wishes.

Mr. Dacey asked what we were accomplishing, if it meets the definition of a consolidated entity going through the whole process we set up here, then isn't the point though it has to be the entire entity. He explained the extent of other funding should have been considered in the decision about whether it is a consolidation entity. So it appears what Mr. Steinberg is trying to get is the language similar to A20 that it is the whole entity, not part of the entity—it just sounds as if he wants that into the standard. Mr. Dacey explained that the funding by other sources is not significant because we have already made a decision it is a consolidation entity.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Showalter agreed the funding source should not matter.

Mr. Steinberg explained you must be explicit.

Mr. Dacey explained if you made a decision that it is a consolidated entity then you need to consolidate the entire entity.

Chairman Allen asked if there was a way to get the concept into the standard within one of the existing paragraphs.

Mr. Showalter suggested in paragraph 61- It says "consolidated entities' financial statement should be consolidated.... He further suggested adding a footnote there that the consolidated financial statements should include the amounts and operations from all sources, appropriated and donated funds-- wordsmith it. He explained it was to address the point and it seemed like a logical place since this is where we are talking about what consolidated financial statements mean.

Mr. Dacey agreed.

Chairman Allen agreed and asked if any members objected to the proposal. If no members objected, staff could bring back final wording for review at tomorrow's meeting.

The Board agreed to add the footnote regarding funding by different sources--donations or appropriations to paragraph 61.

June 2010

Mr. Allen noted the issue seemed very similar to the second issue that the Board would be discussing, entities partially in the budget.

FASAB Counsel Mr. Dymond agreed and explained this could be considered a subset of issue 2, which is partially in the budget. Staff's approach in issue 2 is to simply say if the entity is listed in the schedule; the entity is in whether it has budget accounts, non-budgetary accounts, and so forth. He added to specifically identify financing accounts as part of the entity seems to be inconsistent with the approach of simply saying, the entity is in.

Staff agreed with the Board and explained OMB had brought this up at two meetings so staff thought perhaps there was need based on experience from application but if OMB is comfortable an approach similar to issue 2 can be taken. Staff suggested including an explanation in the basis for conclusion. Ms. Kearney agreed if the Board adopted that approach with issue 2 then an explanation in the basis for conclusion would be sufficient.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Showalter explained he believed the footnote should be included and clear-- if an entity is on the schedule, it is in. He explained he would like to have a footnote included because we want to ensure there is no doubt what we mean as the entity may have other accounts that aren't included on the schedule.

Mr. Jackson agreed that entities should include all accounts associated with the organization. He suggested the footnote for clarity that simply said, "Entity should include all accounts associated with the organization in making a decision with regard to whether they are part of the reporting entity."

Mr. Dacey agreed if the entity is in, the whole entity is in, but the question is what does that include and that is our second tier question.

Mr. Steinberg explained that he didn't have a problem with the footnote. He added he was fine with Mr. Jackson's suggestion in saying, "all accounts" and he believes other issues can be taken care of with the presentation part. He asked if OMB had issue with "all accounts" and how it relates to guidance on the parent and child accounts. Ms. Kearney explained the guidance is in Circular A-136 and it relates to accounts where in practice there was confusion as to which agency was going to report it. The guidance ensured the parent account picked it up to avoid double counting.

Ms. Kearney didn't see a specific reason for this to be addressed in the entity standard. Ms. Kearney explained the parent is in control -- the child is merely executing on behalf of the parent because it is in support of the parent's mission, the parent gets appropriated funds. Ultimately the parent is responsible for that money.

Mr. Allen suggested the Board move on to issue 2 since it was agreed it was similar to the first issue. He asked if the Board agreed with the staff proposal and that language in the conclusive principle should be silent and the exception for these types of organizations (museums and performing arts) should be included in the Draft ED under Government-wide Reporting Entity Presentation and Disclosure Requirements and under the Exceptions and Unique Relationships.

April 2010

Ms. Bond asked for clarification on option 2. She explained that it was her understanding that from the last meeting that some members actually preferred to "split the baby." However, the staff paper notes the Board agreed to not split the baby. Staff explained the staff paper option 2 results in a portion of the entity being consolidated while the other portion of the entity may result in consolidation or some other presentation such as disclosure based on the indicative principles.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Allen explained that based on Ms. Bond's comment perhaps there wasn't Board agreement as noted on page 12 of the staff memo which states "As the minutes detail, it appeared there were a few points that most members agreed on: An entity should not be divided; therefore, the status quo should change as presently only the federal portion is consolidated and there are no disclosures in the government-wide report regarding the entity's consolidated operations (i.e., non-federal funds are omitted entirely)." Staff notes the paper also explained "There appeared to be support for looking to the indicative principles for clarification on how the entities should be presented, yet it was uncertain if the Board would want to present a portion of an entity consolidated if the assessment of the indicative principles led to something other than consolidation."

Mr. Dacey added there was a lot of discussion on the issue in February and it may be helpful to see where the Board members stand.

Mr. Allen explained he believes the organization should be assessed against the indicative principles; it would be very difficult to break up funds and assess them against the principles. He added that one looks at who controls the organization, who appoints the board, who is responsible for the debt, who maintains the buildings, etc. even though some other funding may be received, the federal government is ultimately responsible, otherwise the federal government is subsidizing an entity.

Mr. Steinberg explained that although the answer to those questions may be yes, it may still be more appropriate to disclose condensed financial statements for them. Mr. Allen agreed but that is more of a presentation or reporting model question, the answer of how you do it is more of an open question. Right now, the Board should decide if the whole entity is in or out of the federal government reporting entity. He agreed that later we can decide how they will be presented. Based on this, Mr. Steinberg stated he could amend his answer and say yes, include in the federal reporting entity.

Mr. Jackson explained he liked the option that was presented at the previous meeting that allowed for specific disclosures for these types of entities. Staff explained this was option 3 in the staff paper. Staff directed the Board to page 14 *Option 3—Include Separate Section in Draft ED-- Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations*. Staff explained the Draft ED would have two sections as the conclusive principle would direct you to separate section that addresses these types of entities and provides for following specific disclosures:

- name, purpose, and description of the entity;
- nature of the federal government's relationship with the entity and the amount of funding or subsidy provided to the entity, and if applicable, the percentage of ownership interest and voting;
- condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues; and

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

- other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity.

However, staff explained the disclosures were for those entities the federal government provided less than 80% funding. If the federal government provided over 80% then the entity should be consolidated. The Board members noted concern with jumping straight to consolidation. Ms. Payne explained staff noted entities would be consolidated in this case because these are entities that appear in the federal budget, so it appeared consolidation would be appropriate in those cases. Ms. Payne explained staff did not consider or have a lot of discussion in the staff paper along the lines of included versus excluded with this issue because these types of entities are listed in the budget. Ms. Payne explained with entities appearing in the federal budget there is no question if they are federal, and that is why staff presented option 3 as it is, consolidation for those 80% and over and disclosure for those less than 80%.

Ms. Bond explained after hearing the discussion, she would like to change her vote to option 3 with the 80% as recommended by staff as it appears more in the disclosure realm and it is consistent with what Mr. Steinberg had presented.

Mr. Dacey explained utilizing 80% supports that a substantial portion of the funding had come from the federal government and must be more than a majority to be consolidated.

Mr. Allen explained a challenge with this project is what it means to be a part of a reporting entity. He noted there must be some other way to present other than consolidation and disclosure, and that's what makes the columns as used in GASB a good tool.

Mr. Jackson noted that many of these entities may not even constitute a rounding error and are not material. He added that although they are important, the Board has spent an inordinate amount of time on this. Mr. Allen noted that the materiality box always applies. However, Mr. Allen explained the same issue may apply to material organizations.

Mr. Showalter asked if there were any other entities that were partially in the budget that weren't addressed in option 3, meaning is there anything other than museums and performing art organizations. Mr. Dymond explained there are other funding mechanisms that agencies have other than donations that are not included in the budget-credit reform financing accounts that would apply to this.

Mr. Showalter questioned specifically naming the organizations "Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations" when we are addressing the issue of entities partially in the budget. Staff explained when you think of partially in the budget it becomes very difficult to define, because one can not be certain if today or in the future Congress will authorize other organizations. Usually if an organization collects outside money, it still requires an appropriation to use the money. Ms. Payne explained it is very difficult from a staff's perspective to anticipate how the budget might be structured. By slicing out the known organizations such as the eleemosynary entities, one avoids creating a big whole of unknowns.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Jackson noted these types of entities are a Treasury consolidation issue and really don't involve component entity issues. He added that it may be possible to write the standard in such a way that if Treasury determines the entity is not material to the government-wide, then it wouldn't have to be included, especially since these entities are still producing their stand alone financial statements. Mr. Jackson added it was the materiality filter for the preparer. Mr. Allen agreed and said that is the way it ought to be, but that isn't the way the preparer necessarily does it, often preparers will still do it even if it isn't material since the standard requires something.

Mr. Dacey commented that there potentially could be issues at the component level. He explained he wasn't sure how FFRDCs flow through and are picked up and if they are ever listed partially in the budget.

Mr. Dacey's noted concern with Mr. Jackson's point regarding materiality. He stated it is fine for a preparer to use materiality in preparing financial statements, but materiality should not be used in defining the federal entity itself. Mr. Jackson agreed with Mr. Dacey's point.

Ms. Bond noted the Smithsonian is material to the government-wide financial statements. Mr. Strobel explained they have approximately \$1 billion worth of assets.

Staff noted that the Smithsonian is included as one of the significant entities in the CFR and was included in the Accountability for Tax Dollars Act.

Mr. Showalter said in the interest in moving forward it appears what got the Board in a tailspin is that much time has been spent talking about the how (consolidation or disclosure) instead of whether they should include. He suggested the Board vote if there is agreement entities partially in the budget are included in the reporting entity and how it should be presented would be determined later.

Mr. Steinberg suggested the Board agree that jointly funded museums and performing arts organizations that are in the budget and receive funding from an outside source are part of the federal entity; the Board can later determine how they can be displayed and whether the 80% should apply.

Mr. Dacey asked if it was possible to run into this same problem with the entities that meet the indicative principles. He explained it may be possible to have partially federally funded entities where a majority of the funding may be coming from other non-federal sources that meet the indicative principles. Mr. Dacey explained this similar issue will need to be explored as it relates to the indicative principles—the entity meets the criteria but a significant portion of funding is not federal. Ms. Payne added that funding is a factor, but if it is just meeting indicative criteria and it has funding from another source and then management is accountable to that other source to how it used the money. That is the main issue with charitable organizations and what makes them unique, there is accountability for how the money is spent to the donors. Staff noted this would be considered in the indicative criteria.

Mr. Allen recognizes this postpones resolving the question. Mr. Showalter suggested it may be premature to answer the consolidation question. Ms. Payne asked how premature is the question, does the Board envision it in this project or is it in the Reporting Model Project. Mr. Showalter suggested the Board should address all of the unusual type questions at the end of the federal entity project at one time.

Ms. Bond asked for clarification if Mr. Allen's question of whether the entity is included means included in total and whether the idea of splitting the entity is still up for discussion.

Mr. Allen noted this would be the appropriate time for reconsideration of what staff noted was the conclusion reached at the last meeting because Board members have the right to do that. Mr. Allen explained that staff thought the majority of the Board agreed the whole entity should be in or out. Ms. Bond agreed she wanted to confirm the Board's position on that matter.

Ms. Bond also wanted to reiterate and ensure the Board doesn't lose sight of the fact the federal government can't use the Smithsonian funds. Mr. Steinberg noted he believed this should be a factor considered in determining the proper presentation.

Mr. Allen confirmed the Board would vote if there was consensus regarding whether the whole entity should either be included in some fashion or excluded.

Mr. Dymond explained this is similar to fiduciary activities, such as the Indian Trust Funds. Indian Trust Funds are included in the note disclosures of the CFR. Mr. Jackson explained the donated funds of the museums could be viewed as similar as they are held in trust and can't be used by the federal government.

Mr. Allen explained conceptually one does not care about an organization that is partially funded because of access to its resources or whether they can be used, the question is whether there is a stated or unstated obligation the federal government is responsible for. If so, it may be very important to include the complete financial statements so users have an understanding of the financial position of that organization and know the potential obligation that controlling organization may be incurring.

Mr. Allen explained the most difficult part is how to present these types of entities. One approach to consider is a note disclosure about the relationship with key financial information and a reference to where the full financial statement information can be found. He recognizes there are creative ways to do this but it appears the majority of the Board just wants to agree on whether it is in or out at this point and determine the how at a later point.

The Board agreed this would make progress, but it would need to be revisited. It would need to be revisited before the reporting model project. Mr. Jackson suggested it would be a good idea to allow interested parties to comment on how to report when the proposal is sent for comment. Mr. Allen suggested it would be during the exposure draft process.

Mr. Allen requested the Board members vote on the reconsideration and what should be included--federal funds or both the federal and non-federal funds.

Ms. Bond explained she agreed to include the federal portion only.

Mr. Dacey explained his response continues to be inline with option 2, which would be to include the entity with presentation based on the indicative principles.

Mr. Schumacher explained the whole entity should be included.

Tab B**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Showalter also agreed the entire entity should be included.

Mr. Granof agreed, the whole entity should be included, and not split.

Mr. Jackson agreed to include the entity, its all or none, the only question that remains is how it is presented because we are dealing with the entity now, not the type of money of funding. If a portion is deemed to be similar to the Indian trust funds, they are still included, just through a note disclosure.

Mr. Steinberg agreed the entity should be included and presentation would be decided later.

Mr. Strobel also agreed the whole entity should be included.

Mr. Allen stated he also believed the entity as a whole should be included.

The majority of the Board agreed for entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed would be addressed at the end of the federal entity project along with other unique relationships.



Federal Accounting Standards Advisory Board

REPORTING ENTITY

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by July 3, 2013

April 3, 2013

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation to comment, or preliminary views document may be issued before an exposure draft is released on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board"](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

April 3, 2013

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Reporting Entity*, are requested. Specific questions for your consideration appear on pages 4-9 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by July 3, 2013.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing has been scheduled at 9:00 AM on **August 28, 2013**, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

Sincerely,

Tom L. Allen
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFFRs). The principles proposed to guide financial reporting recognize the complex diverse organizations possessing varying legal designations (for example, government agencies, not-for-profit organizations, corporations) that are used to address public policy challenges. The principles herein are not intended to establish whether an organization is or should be considered a federal agency for legal or political purposes. Rather, this exposure draft (ED) provides principles to guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes.

The government-wide GPFFR should include all organizations (1) budgeted for by elected officials of the federal government, (2) owned by the federal government, or (3) controlled by the federal government with risk of loss or expectation of benefits. In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. When any of these conditions exists, the Board believes information regarding the organization is necessary to provide accountability.

This ED provides for determining the most appropriate means—consolidated financial statements or disclosures—to include information about these organizations in GPFFRs. Determining the most appropriate means requires an assessment of the degree to which the following characteristics are met: the organization is financed by taxes or other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the federal government, and/or provides goods and services on a non-market basis. Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations financed by the taxpayer, governed by elected officials, imposing risks and rewards on the federal government, and providing goods and services on a non-market basis. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in the aggregate – the net cost financed by taxpayers, the assets available for use, and the liabilities to be settled in the future. Organizations to be included in the consolidated financial statements within the GPFFR are referred to as “consolidation entities” and are subject to the hierarchy of generally accepted accounting principles established for “federal entities” in Statement of Federal Financial Accounting Standards 34.

Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and

financial position of the reporting entity. Instead, information about these types of discrete organizations should be disclosed in notes to the consolidated financial statements of reporting entities applying federal financial accounting standards. The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Organizations to be disclosed in the GPFFR are referred to as "disclosure organizations." While disclosure organizations are not subject to the hierarchy of generally accepted accounting principles established for federal entities, information about such organizations is needed for accountability purposes.

The Board proposes each component reporting entity's GPFFR include all organizations for which it is accountable. This includes all consolidation entities and disclosure organizations administratively assigned to it. The GPFFR for the government-wide reporting entity would be a consolidation of component reporting entity GPFFRs including information regarding disclosure organizations. One member would alter the proposal by not equating organizations in receivership, conservatorship, or owned or controlled as a result of an intervention to other disclosure organizations. This member notes that the Board is undertaking a project on risk assumed and believes that that project should establish the requirements for all receiverships, conservatorships, and interventions, not just those encompassed by these proposed standards. This member's alternative view is presented on page 54.

In addition to the relationships that lead to organizations being included in the GPFFR based on the principles described above, the federal government may have relationships with other parties. The Board also proposes to require disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." The disclosures would provide information about the nature of the government's relationship with the related party and other information to aid in understanding the relationship and its potential financial reporting impact, including exposures to risk of loss or potential gain as a result of the relationship.

The proposed Statement would be effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This Statement would improve federal financial reporting by improving guidance for identifying organizations to include in the GPFFRs of the government-wide reporting entity and component reporting entities. When implemented, GPFFRs will provide users with consolidated financial information about federal reporting entities, information about disclosure organizations owned or controlled by the federal government, certain disclosures about the central banking system, and information about significant related party relationships. This information will aid in meeting federal financial reporting objectives.

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QUESTIONS FOR RESPONDENTS

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. The Board plans to hold a public hearing on August 28, 2013, and you are welcome to offer oral comments at that time. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposal may be modified before a final Statement is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All comments are requested by July 3, 2013.

Q1. The Board is proposing three inclusion principles for an organization to be included in the government-wide GPFFR:

- An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” unless the organization is a non-federal organization receiving federal financial assistance
- An organization in which the federal government holds a majority ownership interest
- An organization that is controlled by the federal government with risk of loss or expectation of benefit

In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

Refer to paragraphs 20-36 of the proposed standards and paragraphs A12- A29 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.**
- b. **Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**
- c. **Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.**
- d. **Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.**

Q2. The Board proposes distinguishing between two types of organizations in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.

The Board proposes consolidation entities be consolidated in the government-wide financial statements and the information about disclosure organizations be disclosed in notes. The Board also proposes that certain factors and objectives be considered in determining the information about disclosure organizations to be disclosed in notes. The Statement allows flexibility in the information presented as long as the disclosure objectives are met. The Statement also provides examples of information that may meet objectives.

Refer to paragraphs 37- 53 and 64-77 of the proposed standards and paragraphs A30-A54, A62-A63 and A71-A81 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.**

- c. **Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.**
- d. **Do you agree or disagree with:**
- i. **the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),**
 - ii. **the objectives for disclosures (see par. 72), and**
 - iii. **the examples provided (see par. 73)?**

Please provide the rationale for your answers.

Q3. The Board proposes each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure organizations administratively assigned to it. Administrative assignments can be identified by evaluating:

- the scope of the budget process,
- whether accountability is established within a component reporting entity, or
- rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles.

The Board recognizes that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the above principles. In such cases, the organization may be excluded.

Refer to paragraphs 54-63 of the proposed standards and paragraphs A55-A61 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.**
- b. **Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing arts organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 54-64 of the proposed standards and paragraph A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations? Please provide the rationale for your answers.

Q5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB-based information to a FASAB basis.

Refer to paragraphs 65- 66 of the proposed standards and paragraphs A66-A70 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.

Q6. Central banking (through the Federal Reserve System) is a unique federal responsibility with distinctive characteristics. The proposed standards do not specify that the central banking system be included in GPFFRs or whether, if included, it would be classified as a consolidation entity or a disclosure organization. Because of the unique nature and magnitude of central banking transactions, and the fact there is only one organization of this type, the Board proposes certain minimum disclosures regarding the central banking system. These disclosures would be required in addition to any other reporting requirements regarding the central banking system. The information should be disclosed in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated with or administratively assigned. Depending on the circumstances, some of the minimum disclosures may have been addressed in other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

Refer to paragraph 77 of the proposed standards and paragraphs A30-A37 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.**
- b. **Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.**

Q7. The Board proposes a definition of related parties and disclosures for related parties where the relationship is of such significance that it would be misleading to exclude disclosures about the relationship. The proposal also provides a list of the types of organizations that generally would or would not be considered related parties.

Refer to paragraphs 78 -87 of the proposed standards and paragraphs A82-A84 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.
- b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.
- c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.
- d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.
- e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

Q8. The Board proposes conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. Refer to paragraphs 88-101 of the proposed standards and paragraphs A85-A88 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.

Q9. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2016. Refer to paragraph 102 of the proposed standards.

Do you agree or disagree with this effective date? Please provide the rationale for your answer.

Q10. The Statement provides two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

Refer to Appendix B-Flowchart and Appendix C-Illustration.

- a. Do you agree the appendices are helpful in the application of the proposed standards?
- b. Do you believe the appendices should remain after the Statement is issued?
- c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer.

Q11. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Q12. One member has an alternative view regarding receiverships, conservatorships, and interventions. The Board member does not believe receiverships, conservatorships, and intervention organizations should be equated with other disclosure organizations. He believes guidance in the proposed standards gives the impression that these organizations are part of the federal government. Further, he believes all types of interventions should be addressed in the Board's project on risk assumed.

The other members believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control. The Board deliberated alternatives regarding such organizations, including creating an "exception" similar to the approach taken in SFFAC 2, but determined an exception would be rules-based rather than principles-based. Such an exception would require more detailed guidance, or "rules," to aid in determining whether ownership or control of such organizations is expected or intended to be permanent.

Instead, the proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. The Board believes it is important to address these relationship matters in a single Statement of Federal Financial Accounting Standards and has not proposed exceptions. The Board also addresses in this proposed Statement whether organizations are required to apply the GAAP hierarchy for federal reporting entities. Disclosure organizations are not required to apply the GAAP hierarchy for federal reporting entities and this should avoid giving the impression that all disclosure organizations included in GPFFRs are federal reporting entities or "part of the federal government." To further avoid giving this impression, the Board clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are "part of the federal government" for legal or political purposes.

Refer to paragraphs 7, 13-14, 41, 49-53, and 65 of the proposed standards and paragraphs A1-A2, A9-A11, A20-A23, A30-A31, A44-A54, and A89-A93 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.**
- b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.**

INTRODUCTION

PURPOSE

1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**¹ (GPFFR) for the government-wide reporting entity should be broad enough to reflect the Congress and/or the President's accountability for those organizations. In addition, **component reporting entity** GPFFRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards.² Standards that can be used to identify organizations to include in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such organizations are considered "consolidation entities" or "disclosure organizations,"³ and what information should be presented. This guidance, together with existing guidance, will ensure that users of GPFFRs are provided with comprehensive financial information about federal reporting entities and their relationships so that federal financial reporting objectives are met. This Statement requires reporting entities to disclose certain information about disclosure organizations administratively assigned to them. It does not require new **disclosures** regarding consolidation entities administratively assigned to reporting entities. Any existing required disclosures for the consolidated financial statements of the reporting entity, which include the consolidation entities, would continue to apply. While not addressing the inclusion or classification of the components of the central banking system, the Statement does establish certain minimum disclosures regarding the central banking system.
3. This Statement also guides preparers of GPFFRs in identifying **related parties** and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude information. There are specific disclosures regarding related parties that are in addition to those required regarding disclosure organizations.

¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

² SFFAC 2 is a Concepts Statement and is considered Other Accounting Literature. See Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the FASB* for more information regarding the hierarchy.

³ "Consolidation entities" and "disclosure organizations" are terms used to distinguish between entities based on the degrees to which the entity is (1) financed by taxes or other non-exchange revenue, (2) governed by elected or appointed officials, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a market or non-market basis. See par. 36 - 52 for more information.

4. The guidance recognizes an organization's legal form may not reflect the substance of the relationship between the federal government and the organization. As such, the legal form or designation of an organization does not always determine whether it should be reported in the government-wide GPFFR. Even in cases where legislation indicates an organization is "not an agency or instrumentality" of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity's GPFFR. Inclusion results from a need for accountability given the nature of the relationship between the federal government and the organization but inclusion does not change the legal form of the organization.

MATERIALITY

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE AND APPLICABILITY

6. This Statement applies to federal reporting entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable federal reporting entities preparing and issuing GPFFRs to determine:
 - a. whether SFFAS 34 is applicable to an organization,
 - b. what organizations should be included in the GPFFR of federal reporting entities applying SFFAS 34,
 - c. the manner in which information should be presented for organizations included in the GPFFR, and
 - d. what disclosures, if any, are needed regarding related parties.

DEFINITIONS

Definitions in paragraphs 8 through 12 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

8. **Reporting Entity** Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁴ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that

⁴ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entities for General Purpose Financial Reporting.

- the entity is included in the budget), and is held accountable for the entity's performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
 - c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.
9. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR includes all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.
 10. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.⁵ Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
 11. **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶ See paragraphs 25 - 34.
 12. **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.

ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

13. The federal government is unique because its constitutionally established powers, motivations, and functions are different from those of all other organizations. It is an extremely complex organization responsible for the common defense and general welfare of the nation. Although there are various perspectives⁷ for viewing the federal government, an organizational approach was established in SFFAC 2⁸ as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations⁹ for which the

⁵ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁷ SFFAC 2, par. 13-28, discusses the organizational, budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

⁸ SFFAC 2, par. 29-38.

⁹ "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

federal government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

14. Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that serve varied purposes and have complex governance structures and finances. In some cases, disclosing financial and other information in the notes about an organization rather than consolidating financial and other information about all organizations may better meet federal financial reporting objectives.
15. This Statement first establishes the principles for identifying organizations to include in the government-wide GPFFR (see Principles for Inclusion in the Government-wide GPFFR beginning with paragraph 20) and then distinguishes between consolidation entities and disclosure organizations (see Reporting on Organizations—Consolidation Entities or Disclosure Organizations beginning with paragraph 37).
16. This Statement also establishes that component reporting entities' GPFFRs must include all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Identifying Organizations Component Reporting Entities Are Accountable For beginning with paragraph 54).
17. The Statement provides guidance for how to report on consolidation entities and disclosure organizations (see GPFFR Consolidation and Disclosure beginning with paragraph 64).
18. The Statement establishes minimum disclosure requirements regarding the central banking system (see paragraph 77).
19. Lastly, the Statement provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them (see Related Parties beginning with paragraph 78).

PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

20. This Statement provides three principles for determining which organizations should be included¹⁰ in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 36).
21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:
 - a. In the Budget
 - b. Majority Ownership Interest

¹⁰ "Included" means the information is either consolidated or disclosed.

c. Control with Risk of Loss or Expectation of Benefit

IN THE BUDGET

22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.¹¹ Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Risk of Loss or Expectation of Benefit*) to determine whether they should be included in the government-wide GPFFR.

MAJORITY OWNERSHIP INTEREST

23. The federal government (directly or through its components) may have an ownership interest¹² in an organization. An ownership interest is a legal claim on the net residual assets of an organization such as holding shares or other formal equity instruments. The holding of an ownership interest usually but not always entitles the holder to an interest in voting rights.
24. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets¹³ of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure organization in the government-wide GPFFR.¹⁴

CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

25. An organization that is controlled by the federal government with risk of loss or expectation of benefit should be included in the government-wide GPFFR. For these purposes, control with risk of loss or expectation of benefit is defined as follows:

Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial

¹¹ As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

¹² “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Handbook as of June 30, 2012--Glossary*.

¹³ For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

¹⁴ Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. However, the organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

resources or non-financial benefits.¹⁵ Both the power and either the risk of loss or expectation of benefits aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with risk of loss or expectation of benefit is referred to as “control.”

26. Control refers to the ability to control, whether or not that ability is actively exercised, and should be assessed at the reporting date regardless of the federal government’s ability to change it in the future. In determining whether control exists, it is necessary to determine the substance of the relationship between the federal government and the organization as it may not be completely reflected by the legal form of the relationship.
27. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an organization. Rather, it is the federal government’s authority to determine or influence the policies governing those activities that indicates control.
28. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall on a continuum. At one end of the continuum, it is clear that an organization does not have the power to act independently and is controlled by the federal government—such as an executive department. At the other end, the organization has the power to act independently and, while the federal government may have a level of influence, it is clear that the federal government does not have control—such as a foreign government.

Indicators of Control

29. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
30. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:
 - a. establish or amend the fundamental purpose and mission of the organization,¹⁶ which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;

¹⁵ For example, a non-financial benefit would arise when the federal government receives a service or a service is provided to others on its behalf.

¹⁶ Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 31 or another indicator in this paragraph.

- b. appoint or remove a majority of the governing board members;
 - c. direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or
 - d. dissolve the organization thereby having access to the assets and responsibility for the obligations.
31. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:
- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
 - b. direct the ongoing use of the organization's assets;
 - c. direct investment decisions including the liquidation of investments;
 - d. appoint or remove key executives or personnel;
 - e. approve the budgets or business plans for the organization;
 - f. require audits;
 - g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
 - h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
 - i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
 - j. establish, rescind, or amend the organization's governance framework;
 - k. establish limits or restrictions on borrowing and investments of the organization; or
 - l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

Situations Where Control Does Not Exist

32. Because of the federal government's broad powers and economic influence, control should not be inferred from either:
- a. authority to exercise regulatory powers over an organization; or
 - b. economic dependency of the organization on the federal government.

33. The federal government has the power to regulate many organizations by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of organizations by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated organizations make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes of this Statement because the federal government's interest in these organizations extends only to the regulatory aspects of the operations.
34. Certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many nonprofit organizations rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence organizations dependent on federal funding or business through purchasing power, the federal government typically does not govern their financial and operating policies.

MISLEADING TO EXCLUDE

35. There may be instances when an organization does not meet the inclusion principles in paragraphs 20 through 31 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.¹⁷
36. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

REPORTING ON ORGANIZATIONS—CONSOLIDATION ENTITIES OR DISCLOSURE ORGANIZATIONS

37. The principles above should be used to assess what organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure organizations” as that distinction determines how the organizations will be reported. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis.¹⁸ Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

CONSOLIDATION ENTITIES

38. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization is:

¹⁷ Although such situations would be rare, this Statement provides for situations that may arise.

¹⁸ Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

- a. financed through taxes, and other non-exchange revenues.
 - b. governed by the Congress and/or the President.
 - c. imposing or may impose risks and rewards to the federal government.
 - d. providing goods and services on a non-market basis.
39. Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.
40. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

DISCLOSURE ORGANIZATIONS

41. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as organizations in **receivership**. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter, these organizations are referred to as “disclosure organizations.”
42. Disclosure organizations may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
43. Disclosure organizations receive limited or no funding from general tax revenues. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the federal government. Disclosure organizations may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹⁹
44. Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types are presented to

¹⁹ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

assist in identifying organizations that are disclosure organizations. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

Quasi-Governmental and/or Financially Independent Organizations

45. Quasi-Governmental and/or Financially Independent Organizations have relationships with the federal government that are not temporary but differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure organizations are on a continuum that considers such factors as whether the governance is through appointed officials versus a structure that vests most decision-making authorities in a governing body to insulate the organization from political influence; whether the organization is financed primarily through taxes and other non-exchange revenues versus limited or no such financing; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis.
46. Governance differences typically lead to greater independence. Characteristics may include the following:
 - a. Longer appointments of key executives or governing boards to allow these appointees a degree of independence from the Congress and/or the President
 - b. Delegated operational authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Private sector legal characteristics, such as not-for-profit status under the Internal Revenue Code
 - d. Exemption by statute from laws or regulations dealing with the federal budget, funds, personnel, ethics, acquisition, property, or works
 - e. Voluntary association with the federal government and shared purposes to implement government policies
47. Financial differences typically lead to greater fiscal autonomy. Characteristics may include the following:
 - a. Primarily funded from a source other than appropriations
 - b. Delegated financial authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Principally engaged in selling goods and/or services to organizations outside of the federal government
 - d. Intended, in the normal course of its operations, to maintain its operations and meet its liabilities from revenues received from sources outside of the federal government
48. Not all organizations of a given type will meet the characteristics above. Examples of the types of organizations that could be consolidation entities or could be quasi-governmental

and/or financially independent organizations are **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each organization should be assessed objectively since there are likely to be differences among the organizations within these example types such that some should be consolidation entities and others disclosure organizations.

Receiverships and Conservatorships²⁰

49. The federal government may take control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. Receiverships or conservatorships are established to liquidate failing financial institutions or to guide such institutions back to safe and sound conditions.²¹ Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure organizations.

Federal Government Intervention Actions Resulting in Control or Ownership

50. In exceptional circumstances such as economic instability or a national security crisis, the federal government may intervene in organizations not previously meeting the inclusion principles. Interventions arise because of the federal government's broad responsibility for the well-being of the country. Some, but not all, interventions establish ownership or control such that the organization then meets the inclusion principles. Although intervention actions are not expected to be permanent, they may not include a specific time limit.
51. Typically federal government intervention actions are not routine activities. Strategic planning documents are unlikely to include objectives to routinely initiate such interventions or to permanently operate organizations acquired through interventions.
52. Examples of intervention actions resulting in control or ownership include:
- a. The federal government provides financial support and, in doing so, obtains control of an established organization but expects to relinquish or cede control.
 - b. The federal government acquires an ownership interest in an organization but expects to end its interest as soon as practicable.
53. Intervention actions that exist at fiscal year-end must be assessed to confirm the resulting control or ownership is not expected to be permanent. If the intervention activities are not expected to be permanent or other characteristics of disclosure organizations exist, organizations controlled or owned as a result of intervention actions would be disclosure organizations.

²⁰ This type differs slightly from federal interventions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

²¹ For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

IDENTIFYING ORGANIZATIONS COMPONENT REPORTING ENTITIES ARE ACCOUNTABLE FOR

54. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity²² and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. Therefore, component reporting entities must identify and include in their GPFFRs all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFRs and government-wide GPFFR are complete.
55. A component reporting entity's GPFFR should include all organizations that would allow the Congress and/or the President to hold the component reporting entity's management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and enhance accountability to the public. Each component reporting entity is accountable for all consolidation entities²³ and disclosure organizations administratively assigned to it.
56. Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:²⁴
 - a. Scope of the Budget Process
 - b. Accountability Established Within a Component Reporting Entity
 - c. Misleading to Exclude and/or Misleading to Include

SCOPE OF THE BUDGET PROCESS

57. Consolidation entities and disclosure organizations subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
 - a. all consolidation entities listed within its section of the *Budget of the United States Government: Analytical Perspectives--Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" and
 - b. all disclosure organizations included within its congressional budget justification.²⁵

²² SFFAC 2, par. 38.

²³ A component reporting entity comprises all consolidation entities administratively assigned to it and should present information about disclosure organizations assigned to it.

²⁴ Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.

ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

58. Consolidation entities and disclosure organizations for which a component reporting entity has been assigned accountability responsibilities should be included in the GPFFR of that entity. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators²⁶ that accountability has been established in the component reporting entity include:
- a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.²⁷
 - b. An organization is included in the component reporting entity's published organization chart.
 - c. The component reporting entity acquires and/or monitors²⁸ ownership interests in organizations where there are ongoing responsibilities²⁹ such as:
 - i. coordinating and/or conveying input on strategic plans,
 - ii. providing appropriated funds to the organization and receiving requests for funding in the current and/or future years,
 - iii. administering any federal grants or contracts awarded to the organization,
 - iv. monitoring activities and/or reporting on outcomes, or
 - v. monitoring the value of the ownership interest.
 - d. A controlled organization³⁰ was established by statute or by action of the component reporting entity to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include those in which the component reporting entity:
 - i. approves bylaws including any amendments,
 - ii. is represented on the governing board (for example, as an ex-officio member),
 - iii. appoints members of the governing board,

²⁵ A congressional budget justification is a document submitted annually to Congress to justify an organization's budget request.

²⁶ These indicators provide evidence that accountability was established or was assigned to a component reporting entity. Meeting any one would typically mean accountability was established.

²⁷ For example, the U.S. Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the U.S. Department of Commerce.

²⁸ Such responsibilities may be assigned to a program office.

²⁹ These responsibilities are examples of actions or activities performed by the component reporting entity that are indicative of monitoring an ownership interest in an organization, which is an indicator of accountability.

³⁰ Where control exists at the government-wide level based on paragraphs 25-34.

- iv. coordinates and/or conveys input on strategic plans,
 - v. monitors organizational performance,
 - vi. approves budgets, operating plans, or contracts with others,
 - vii. establishes and executes cooperative agreements with the organization,
 - viii. administers federal grants to or contracts with the organization,
 - ix. testifies before Congress regarding organization performance and objectives, or
 - x. has significant financial transactions or balances that indicate ongoing managerial involvement.
59. If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:
- a. Disclosure organizations should be included in the GPFFR of each component reporting entity assigned such responsibilities.
 - b. Consolidation entities should be administratively assigned to only one component reporting entity.³¹ The component reporting entity assigned the largest share³² of responsibilities described in paragraph 58 generally should include the consolidation entity.
60. If a disclosure organization has not been administratively assigned to a consolidation entity, the disclosure organization should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosure organization or (b) with which its mission most closely aligns.

MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

61. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 57-60 yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFFR.³³
62. There may be instances where applying the principles in paragraphs 57-60 to consolidation entities would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger organization while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the

³¹ Note that the component reporting entity to which a consolidation entity is administratively assigned may also be administratively assigned to a higher-level component reporting entity.

³² Largest share as used here is based on the most significant administrative role.

³³ Although such situations would be rare, this Statement provides for situations that may arise.

component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

63. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples³⁴ of indicators that it may be misleading to include an organization are:
- a. The budget submission is combined for procedural purposes only, as indicated by:
 - i. the budget request not being approved by component reporting entity management, or
 - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
 - b. The component reporting entity provides no direct oversight of the organization.
 - c. The organization's funding is separate from the component reporting entity's funding.
 - d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
 - e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time.
 - f. The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR.

GPFFR CONSOLIDATION AND DISCLOSURE

CONSOLIDATION ENTITIES

64. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position³⁵ of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information for all

³⁴ The indicators listed in 63 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

³⁵ The consolidated financial statements should include amounts and balances, consistent with applicable accounting standards, even if the amounts and balances arise from or are supported by different funding sources (e.g., appropriations or donations).

consolidation entities administratively assigned to them. Consolidation³⁶ aggregates the individual financial amounts of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

65. Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.
66. SFFAS 34 recognizes that a limited number of federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

REPORTING ON DISCLOSURE ORGANIZATIONS

67. Maintaining a distinction between the finances of consolidation entities and disclosure organizations will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about disclosure organizations rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although disclosure organizations are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.
68. For those organizations classified as disclosure organizations, the preparer should exercise judgment in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure organizations should be disclosed in accordance with **Disclosure Requirements** as detailed in par. 70 to 73 below after considering the factors listed in par. 69.

³⁶ Consolidation is a method of accounting that combines the accounts of those entities line by line on a uniform basis of accounting and eliminates balances and transactions among the entities. For selected financial statements such as the statement of budgetary resources, a combined financial statement which does not eliminate balances and transactions among the entities is acceptable.

Factors in Determining Disclosures

69. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure organizations. Beyond materiality, the following factors³⁷ should be considered in making judgments about the extent of appropriate disclosures:
- a. **Relevance to reporting objectives** – Significance of the disclosure organization to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the reporting entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.
 - b. **Nature and magnitude of the potential risks/exposures or benefits associated with the relationship** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure organization's operations.
 - c. **Disclosure organization views/perspective** – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.
 - d. **Complexity of the relationship** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
 - e. **Extent to which the information interests, or may be expected to interest, a wide audience** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure organization or its relationship with the federal government.
 - f. **Extent to which there are no alternative sources of reliable information** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.

Disclosure Requirements

70. In addition to the factors presented in par. 69 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure organization should be presented separately due to its

³⁷ The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.

71. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure organization and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure organization. For example, a reference may be made to a note regarding investments in the disclosure organization.
72. For each significant disclosure organization and aggregation of disclosure organizations, information should be disclosed to meet the following objectives:³⁸
 - a. **Relationship and Organization**: The nature of the federal government's relationship with the disclosure organization(s)
 - b. **Relevant Activity**: Nature and magnitude of relevant activity during the period and balances at the end of the period
 - c. **Future exposures**: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization
73. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure organization's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.³⁹ In determining what information is needed to meet the objectives in paragraph 72, the factors in paragraph 69, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.
 - a. The name and description of the disclosure organization,⁴⁰ including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
 - b. The nature of the relationship between the federal government and the disclosure organization including relevant information regarding:
 - i. How any control or influence over the disclosure organization is exercised

³⁸ The objectives are not listed in any order of preference.

³⁹ No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 72 should be provided.

⁴⁰ For simplicity, information is described in relation to a single disclosure organization. Nonetheless, the information may be presented for an aggregation of similar disclosure organizations.

- ii. Key terms of contractual agreements, statutes, or other legal authorities
 - iii. The percentage of ownership interest and/or voting rights
 - c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure organization and/or a statement that the intervention is not expected to be permanent
 - d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure organization and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
 - e. A discussion of the disclosure organization's key financial indicators and changes in key financial indicators
 - f. Information regarding the availability of the disclosure organization's annual financial report and how it can be obtained
 - g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting entity to provide financial support to the disclosure organization in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
 - h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the organization during the period
 - i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure organization, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
 - j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure organization's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable
74. Any disclosure organization's financial information presented in the reporting entity's GPFFR should be based on accrual-basis standards provided in generally accepted accounting principles or an other comprehensive basis of accounting developed for its

specific type of entity.⁴¹ This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

75. When information is derived from the disclosure organization's financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure organization's reporting period differs from the government-wide reporting entity's and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure organization's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.
76. Significant changes in information occurring from the end of the disclosure organization's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM⁴²

77. The following information regarding the central banking system should be disclosed⁴³ in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:
 - a. Governance structure with particular emphasis on matters affecting its independence and insulation from political influence
 - b. Significant roles and responsibilities (and how these relate to federal policy objectives)
 - c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
 - d. Amounts of significant types of transactions and balances between the central banking system and the reporting entity

⁴¹ Consolidation entities should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

⁴² Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act).

⁴³ Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

- e. A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations
- f. The availability of annual financial reports and how they can be obtained

RELATED PARTIES

- 78. In addition to organizations for which the Congress and/or the President are accountable,⁴⁴ the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.⁴⁵ Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.
- 79. Related parties: Organizations are considered to be related parties if the existing relationship⁴⁶ or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
- 80. Significant influence (for the purpose of this Statement) is the power to participate in the policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
- 81. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
- 82. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
- 83. Related parties *generally* would include (see paragraph 84 for organizations *generally* not included) but are not limited to:
 - a. **Government sponsored enterprises** not meeting the Inclusion Principles

⁴⁴ Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation entity or disclosure organization and not be subject to related party reporting.

⁴⁵ Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

⁴⁶ Relationship as used in this context refers to material transactions or events involving both parties.

- b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, multi-lateral development banks)
- 84. In the context of this Statement, the following generally would not be considered related parties:
 - a. Organizations meeting the Inclusion Principles
 - b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations⁴⁷
 - c. Key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families
 - d. Foreign governments
 - e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
 - f. Special interest groups⁴⁸
- 85. Although paragraph 84 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 86.
- 86. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:
 - a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
 - b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
 - c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

⁴⁷ However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

⁴⁸ Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.

87. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:
- a. Nature of the federal government's relationship with the party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
 - b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

EFFECT ON EXISTING CONCEPTS—PROPOSED AMENDMENTS TO SFFAC 2, *ENTITY AND DISPLAY*

88. The purpose of this section of the Statement is to propose conforming amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, as described in the following paragraphs. Conforming changes were not needed in paragraphs 11- 37 and these paragraphs were retained in SFFAC 2 as they provide concepts regarding reporting entity. Conforming changes were not considered regarding paragraphs 54 – 77 and paragraphs 79 – 112 because they address concepts outside the scope of this Statement.

89. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.

The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

90. Paragraphs 3 - 5 are rescinded because the preamble applicable to all concepts statements, which was adopted at the time SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* was issued, addresses the topics covered.

91. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFFR:

6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established

in SFFAC 1, it is clear that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

92. Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.
93. Paragraph 10, first bulleted item is amended by replacing it with the following bulleted item addressing an understanding of what the reporting entity entails:
- ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

94. Paragraph 38 is amended to exclude references to other paragraphs amended by this Statement. Paragraph 38 is replaced with the following:

The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the Federal government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

95. Paragraphs 39 -50 are rescinded because the standards herein provide guidance on the same matters. It is not necessary or appropriate to retain the guidance in SFFAC 2.
96. The sub-heading before paragraph 51 - "Other Aspects Concerning Completeness of the Entity" - is revised to read "Other Aspects Concerning Completeness of the Component Reporting Entity."
97. Paragraph 51 is replaced with the following:

Identifying the organizations to include in the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within parameters more appropriately established in accounting standards, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

98. Paragraphs 52 – 53 are rescinded because these paragraphs relate to issues covered in standards and are not necessary for understanding the notion of the reporting entity.
99. A new sub-heading "Need to Distinguish between Consolidation Entities and Disclosure Organizations" is inserted at paragraph 53A.

100. Insert Paragraphs 53A – 53 E under the sub-heading: “Need to Distinguish between Consolidation Entities and Disclosure Organizations” - The proposed language provides a high level explanation of consolidation entities and disclosure organizations. These are new terms introduced in the proposed Statement and critical to understanding the reporting entity concept in the federal government. More importantly, the proposed language describes the need to distinguish them and the reason for this distinction in terms of financial statement presentation.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct organizations are referred to collectively as “disclosure organizations.”

53B. Disclosure organizations may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure organizations’ relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation entities and disclosure organizations should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure organizations. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure organizations are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure organizations often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all organizations likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure organizations.

53D. Maintaining a distinction between consolidation entities and disclosure organizations may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure organizations. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure organizations.

53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

101. Paragraph 78 is rescinded because it is not conceptual guidance. It identifies an expectation that material differences between the recognition and measurement requirements under the Financial Accounting Standards Board and the FASAB standards will be adjusted before consolidation.

EFFECTIVE DATE

102. This Statement is effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Introduction

- A1. The federal government and its relationships with other organizations have become increasingly complex. These complex relationships make it difficult to identify federal entities for financial accountability purposes. In addition, some organizations may be viewed as “non-federal” and yet be owned or controlled by the federal government. Identifying the organizations to be included in the government-wide and component reporting entity general purpose federal financial reports (GPFFRs) is necessary to ensure the completeness of GPFFRs.
- A2. GPFFRs should include the varied organizations for which the Congress and/or the President are accountable regardless of their form. Therefore, the primary reason for developing standards for the government-wide and component reporting entity GPFFRs is to ensure that users will be provided with complete financial information about the federal government. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included in the entity, questions have continued in this area that resulted in the need for standards.

Project History /Task Force

- A3. In 2008, the Board formed a task force to support the project. The objective of the task force was “to assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included.”
- A4. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were presented to the Board for its consideration during the development of these proposed standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. (See Appendix E for a list of task force members.)

Organizational Approach to Defining Boundaries

Underlying Concepts

- A5. The federal government is complex and therefore defining the boundary of GPFFRs may be difficult. Its constitutionally established powers and often its motivations and functions are different from other organizations. Despite these complexities, difficulties, and differences, accountability is a fundamental goal of financial reporting. As noted in SFFAC 1:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and

must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.⁴⁹

- A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraphs 71 and 72 state "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability."
- A7. SFFAC 1 explains that the federal government has a special responsibility to report on its actions and the results of those actions. SFFAC 1 discusses the information needs of both internal and external users including the citizens, their elected representatives, federal executives, and program managers because meeting user information needs is an essential part of accountability in government.
- A8. An organizationally based approach to defining boundaries supports accountability to all users but particularly to external users who may be unaware of the nature of organizational relationships. Focusing on organizations helps to identify who is accountable and for what. In addition, an organizational approach provides meaningful financial statements by aligning boundaries with defined organizations for which there would likely be users of GPFFRs.⁵⁰

Identifying and Classifying Organizations

- A9. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable. This Statement provides that reporting entities should first identify what organizations⁵¹ are to be included⁵² in the reports. The three principles for including organizations in the government-wide GPFFR are: In the Budget, Majority Ownership Interest, and Control with Risk of Loss or Expectation of Benefit. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it.
- A10. Next, for those organizations to be included, a distinction is made between consolidation entities and disclosure organizations. This distinction determines how financial information is to be presented in the GPFFR. Consolidation entity financial information is to be presented in consolidated financial statements and related notes. Disclosure organization financial information is to be disclosed in notes to the financial statements.
- A11. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which

⁴⁹ SFFAC 1, paragraph 8.

⁵⁰ See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

⁵¹ "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components. In certain instances, a specific program or "fund" may be subject to certain reporting requirements or have characteristics such that a GPFFR for the program or fund is needed. Examples may include the Highway Trust Fund or the General Fund. See SFFAC 2, par. 25 – 28.

⁵² "Included" means an organization's information is either consolidated or disclosed.

organizations should be included⁵³ in the government-wide GPFFR because of the wide and varying relationships of the federal government. General purpose federal financial reports for the government-wide reporting entity should be broad enough to report the Congress' and the President's accountability for organizations. This ensures that the financial reports contain all the information essential for fair presentation of the government's financial position and results of operations.

Principles for Inclusion in the Government-wide GPFFR

In the Budget

- A12. Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.”
- A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.⁵⁴
- A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled “Federal Programs by Agency and Account” may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

Organizations Receiving Federal Financial Assistance

- A15. The schedule entitled “Federal Programs by Agency and Account” also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the “Federal Programs by Agency and Account” schedule sometimes names an organization to receive a “subsidy” and states “This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.” Thus, “subsidy” is the term used in SFFAC 2 to distinguish such “non-federal” organizations from the organizations intended to be included in the GPFFR.
- A16. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to

⁵³ Note that this Statement does not specify which organizations must prepare and issue financial statements.

⁵⁴ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

define “subsidy” but concluded it was more appropriate to rely on the existing definition of “federal financial assistance.”

- A17. The proposed language ensures organizations that receive federal financial assistance⁵⁵ as defined by the Single Audit Act Amendments of 1996 but listed under an appropriation in the schedule entitled “*Federal Programs by Agency and Account*” aren’t automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believes a means to confirm whether specifically identified recipient organizations are “non-federal organizations receiving federal financial assistance” is needed. When such organizations are listed in the budget, they should be assessed against the “majority ownership interest” and “control with risk of loss or expectation of benefit” principles before being excluded from the government-wide GPFFR.
- A18. Generally, the Board believes preparers can identify organizations that are in fact receiving “subsidies” as described by SFFAC 2. The Statement provides that, although these may be listed in the budget, they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the “*Federal Programs by Agency and Account*” schedule or refer to other budget documents because such treatments may change.

Organizations Partially in the Budget

- A19. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President’s Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the “in the budget” principle. The Board further decided that such organizations should be presented in the same manner as other consolidation entities or disclosure organizations, as discussed later in the Statement. Therefore, the language in the principle (“in the budget”) does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization is either a consolidation entity or a disclosure organization and should be reported as one or the other, in its entirety. Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.

Need for Additional Principles

- A20. While the principle “in the budget” is the most efficient means to identify organizations for inclusion, there are additional principles to be considered to identify other organizations that should be included in the government-wide GPFFR. The budget principle represents a starting point in analysis but accountability goals could not be met solely through that principle. Because the budget’s purposes differ from financial reporting objectives in many respects (such as the focus on the allocation of budgetary resource flows versus costs of operations), it is possible that organizations or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports. For example, some organizations may be established to operate in a manner similar to businesses and

⁵⁵ “Federal financial assistance” is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

excluded from the budgetary process. Therefore, additional inclusion principles are necessary to ensure completeness in the context of the federal financial reporting objectives.

Majority Ownership Interest

A21. Ownership interests typically provide owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about service efforts, costs, and accomplishments be made available. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR. As described in the Statement, majority ownership interest exists with over 50 percent of the voting rights or the net residual assets of an organization.

A22. The Board noted that some may question how to account for minority ownership interests (less than 50 percent). The Board agreed addressing minority interests through the project is likely to be less effective than allowing the GAAP hierarchy to fill any void. To address the potential question, the Board included within the Statement a footnote stating ownership interests 50 percent or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

Control with Risk of Loss or Expectation of Benefit

A23. When the federal government controls an organization with risk of loss or expectation of benefit, the organization should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss or expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

A24. For example, the Statement provides for situations where the risk of loss or expectation of benefit does not exist—in the instance of the federal government exercising regulatory powers over an organization. In these cases, the federal government is unable to exercise that power for its own benefit and rarely explicitly assumes risk of loss. Therefore, including such an organization in the GPFFR would misrepresent the financial position and results of operation of the government. This would not support achievement of the objectives of financial reporting.

A25. For financial reporting purposes, assessment of control is made at the reporting date and based on current legislation, rather than legislation that may or may not be enacted in the future.

A26. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization.

A27. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be non-financial. For example, it may be in the form of a service provided on the federal government's behalf or the ability to direct the work of the other organization to deliver goods and services.

Misleading to Exclude

A28. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain Board members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

A29. The Board also believes the provision is consistent with the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. It provides for those unique situations where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.

Reporting on Organizations—Consolidation or Disclosure

A30. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure organization. Consolidation entities are subject to the hierarchy of GAAP established for “federal entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure organizations are not subject to the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A31. Different means of presenting relevant information are provided for consolidation entities and disclosure organizations.⁵⁶ The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure organizations that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual organization is more useful than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair

⁵⁶ Consolidated financial statements provided for “consolidation entities” will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A32. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure organizations, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure organization might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),⁵⁷ a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A33. The role of preparers and auditors is to assess each organization against the principles in paragraphs 20 – 53 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should explicitly address inclusion and classification (as a consolidation entity or disclosure organization) of the FRS in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change.

A34. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors would consider the appropriate matters in making decisions. The majority of the Board believes the proposed principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation entity or disclosure organization.

A35. If the assessment of the FRS resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as

⁵⁷ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

well as assets for investments in non-federal organizations. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A36. If the assessment of the FRS resulted in its classification as a disclosure organization, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to the federal government. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

A37. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities and the need to maintain independence in practices. Its responsibilities are broad reaching because of the impact of monetary policy on the country (government, businesses, and citizens) thereby leading to great interest in its activities. The magnitude of its role and transactions led the Board to propose certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements in the government-wide financial report and any reporting entity to which it may have been administratively assigned. The minimum disclosures 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. The disclosures should be integrated, and depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

Consolidation entities

A38. Consolidation entities generally provide goods and services on a non-market basis. That is, prices are not established solely through market transactions where supply and demand determine price. Goods and services provided on a non-market basis may be free of charge or provided at prices that are either not economically significant or bear little relationship to the cost of the goods or services.

A39. Consolidation entities are financed through taxes and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the federal government for consolidation entities. Inclusion in the budget is the clearest evidence an organization is relying on the taxpayer and that elected officials are key decision makers.

A40. The budget is a political document serving many purposes. The 1967 *Report of the President's Commission on Budget Concepts* indicates that “the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.” On the topic of coverage of the budget, the Commission recommended that “the budget should, as a general rule, be comprehensive of the full range of Federal activities.” Because the budget includes “federal activities,” entities listed in the budget, except those receiving federal financial assistance, are presumed to qualify as consolidation entities.

A41. The assessment of whether an organization meets the attributes for a consolidation entity is based on the assessment of all the attributes and the degree to which each is met. As such, not all attributes are required to be met; classification is based on the assessment as a whole.

Disclosure organizations

A42. Disclosure organizations receive limited or no funding from general tax revenues. Disclosure organizations, in contrast to consolidation entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. Disclosure organizations have relative financial independence and often provide goods and services on a market basis. This may be an effort to shield the federal government from risk.

A43. Another contrast with consolidation entities is that with disclosure organizations, the Congress and/or the President have much less direct involvement in decision-making. Decision-making may rest with a governing board insulated from political influence and there may be situations where disclosure organizations have a separate legal identity.

A44. It is important to recognize the continuum that exists among disclosure organizations. For example, despite a greater degree of autonomy, some disclosure organizations may still exercise powers that are reserved to the federal government as sovereign. Other disclosure organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory or intervention actions.

A45. The Statement provides categories of disclosure organizations primarily as a way to help identify disclosure organizations. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about disclosure organizations. The categories of disclosure organizations include quasi-governmental and/or financially independent organizations, receiverships and conservatorships, and federal government intervention actions.

Quasi-Governmental and/or Financially Independent Organizations

A46. The Statement describes quasi-governmental and/or financially independent organizations as those disclosure organizations where governance and/or financial differences lead to greater independence. The Statement identifies both governance and financial characteristics that would be found in this type of disclosure organization.

A47. Quasi-governmental and/or financially independent organizations may include certain FFRDCs, museums, performing arts organizations and universities, and venture capital funds. Because details may differ among organizations in each example type, an objective

assessment may classify some individual organizations as consolidation entities rather than disclosure organizations. Appendix C- Illustrations offers examples that may be useful in application.

Receiverships and Conservatorships

A48. The Statement describes receiverships and conservatorships as disclosure organizations. This includes those failed financial institutions and banks the federal government takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned organizations would be disclosure organizations and are not subject to the GAAP hierarchy for federal entities included in the GPFFR.

Federal Government Intervention Actions

A49. The Statement describes federal government intervention actions as disclosure organization involvements resulting from exceptional circumstances where the involvements are not expected to be permanent. SFFAC 1 acknowledges the unique nature of federal government activity and its broad responsibilities. Paragraph 50 explains “The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power. The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society...” SFFAC 1 describes the federal government’s responsibility for the general welfare of the nation in paragraph 53-54 as “a broad responsibility that involves multiple goals.”

A50. With these broad responsibilities, the federal government may decide to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets, key industries, states, cities, counties, or military occupation of another country.⁵⁸ These types of federal government interventions are considered rare.⁵⁹ Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.⁶⁰ Although the federal government may not act to maximize profits, the federal government may intervene and act in capacities to protect citizens. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

A51. The federal government may also intervene by providing assistance through extending loans or debt guarantees that do not meet the inclusion principles established in this Statement. Such transactions should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. This Statement does not include additional disclosures for such intervention actions.

A52. Currently SFFAC 2 provides an exception for situations where the criteria leading to consolidation are met temporarily. Specifically, paragraph 45 of SFFAC 2 states “The entity

⁵⁸ After the signing of the Japanese Instrument of Surrender in 1945, Japan was supervised for 6 years by the Allied (primarily American) forces and subject to military control, with General MacArthur at the head of the Occupation administration. (Takemae, Eiji; 2002, p. xxvi)

⁵⁹ The financial crisis that began in 2007 is considered to be the most severe since the Great Depression. (White Paper on Changes to Financial Regulations)

⁶⁰ Congressional Research Service (CRS) Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics are more than fleeting.” “Fleeting” may imply periods of one year or less to some and the Board considered how to clarify the term “fleeting.” Ultimately, the Board decided terms such as “fleeting” and “temporary” imply a time limit.

A53. However, there may be instances where an intervention is longer than one year due to the extreme factors of the national crisis. In most instances, it is difficult to establish and meet a timeline for ending an intervention. In these instances, the focus continues to be on governance and protection, rather than maximizing profits or establishing new federal government lines of business. Although the actions may be longer than one year, the interventions are “not expected to be permanent.” The Board established this “non-permanent” expectation as a characteristic of disclosure organizations rather than relying on “temporary” or “fleeting” to avoid the implication that a time limit could be established.

A54. A further implication the Board wishes to avoid is that organizations owned or controlled as a result of interventions are considered “federal entities.” The Statement recognizes that such interventions create a need for accountability but they do not make the disclosure organizations arising from intervention actions “federal entities.” Hence, the Statement proposes that disclosure organizations not be subject to the GAAP hierarchy for federal entities.

Component Reporting Entities

A55. The Board believes there should be consistency in treatment of organizations at the government-wide and the component reporting entity levels. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. The Board believes a single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. This is appropriate and necessary because the government-wide reporting entity is the only federal reporting entity that is an independent economic entity.

A56. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A57. The Board believes that component reporting entities should identify consolidation entities and disclosure organizations administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (for example, appointed officials) are expected to be accountable.

A58. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs would be complete.

A59. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

A60. Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

A61. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts.

GPFFR Consolidation and Disclosure

A62. As noted above, decisions about the government-wide GPFFR require determining what organizations are to be included in the reports and identifying appropriate means to present relevant information about organizations. The final determination of the presentation of financial information through consolidation or disclosure is based upon the results of two assessments—first if the organization is included and second, if those included organizations are classified as consolidation entities or disclosure organizations.

A63. The Flowchart at Appendix B is a useful tool in applying the principles established. It is helpful in the assessment and applying the standards in order. It includes paragraph references to underlying principles and major decision points.

Consolidation Entities

A64. The Statement provides that consolidation entities should apply SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. In addition, it provides for the consolidation of the financial statements of consolidation entities so citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the activities financed by taxes and other non-exchange revenue, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

A65. Existing guidance may also require additional information—either through disclosures or required supplementary information—regarding consolidation entities. While the term “disclosure organizations” is used to refer to organizations included in GPFFRs through disclosures, readers should not infer that disclosures would not also be provided regarding consolidation entities and related activities and transactions consistent with existing standards.

Consolidation of FASB-based and FASAB-based Information

A66. The Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other organizations in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal reporting entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

A67. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components’ financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity’s financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.⁶¹ (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

A68. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there are significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger organizations may not be justifiable since conversion may not aid users.

⁶¹ In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.

A69. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger organizations; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement proposes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A70. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

Disclosure Organizations

A71. The Board believes consolidation of disclosure organizations would not result in information meeting the basic qualitative characteristics of information in financial reports because it would not provide the most relevant, understandable, or consistent information. The Board believes consolidation of disclosure organizations may obscure the boundaries of the risks and rewards intended to be assumed or gained. Further, assets that are not available for purposes other than the specific business operation of the non-consolidated organization might be commingled with federal assets, and liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for organizations having the characteristics of disclosure organizations should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements.

A72. The Board believes SFFAC 1 recognizes the challenges that may arise in applying traditional approaches to financial reporting. SFFAC 1 par. 49 states "...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government." SFFAC 1 par. 105 further explains "reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives..." SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.⁶²

A73. The Statement provides flexibility in identifying needed information regarding disclosure organizations because the range of disclosure organizations is broad and different information may need to be disclosed to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the consolidation entity's financial statements.

⁶² SFFAC 1, par. 156.

Factors in Determining Disclosures

- A74. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors to assist in determining what disclosures to include. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosure organization presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of information regarding a disclosure organization to be provided.
- A75. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. The assessment of the appropriate disclosures should be made after considering all the factors.

Disclosure Requirements

- A76. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure organization is presented separately due to its significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity. For example, one reporting entity may determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure organization type, such as receiverships, and yet another by class, such as museum.
- A77. Further, disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure. Care should be taken to ensure the objectives are met, without producing unintended consequences. Preparers should keep in mind there are associated costs and potential audit implications with any information included in a GPFFR. Incorporating by reference or including summary financial statements or summary financial information generally would result in an auditor being required to gain audit assurance on that information and thereby may result in additional audit costs.
- A78. The Board believes any financial information about disclosure organizations in the reporting entity's GPFFR should be based on accrual basis standards specific to the type of organization while minimizing additional costs on the disclosure organization. There will be instances where information about disclosure organizations is produced for reporting periods that differ from the reporting entity's reporting period. To minimize additional costs, the Board agreed that if disclosure organizations have a different reporting period than the reporting entity's GPFFR, disclosure of information from a reporting period ending within the reporting entity's reporting period is acceptable. The Board performed outreach on this issue to the audit community and to the federal entity task force. Generally, the feedback supported this approach.
- A79. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the information as a result of events occurring after the issuance of the disclosure organization's audited financial statements and before the issuance of the reporting entity's audited financial statements for a later fiscal year-end. The

Board notes this would only be necessary if a disclosure organization's summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

A80. The Board is especially concerned with the interpretation by the users and preparers regarding the requirements for disclosure organizations and ultimately how they would affect the display and disclosures. The Board believed this would be an important consideration during deliberations and invited the assistance of the Department of the Treasury and a potential included organization in preparing a draft Illustration of a disclosure based on the draft requirements.

A81. Although the Board believed some enhancement of the draft standards was in order to encourage concise and transparent disclosures, the Board agreed the inclusion principles were appropriate. Further, the flexibility provided within the disclosure requirements, along with the factors to consider, were preferable to prescribing information required regarding specific disclosure organizations.⁶³ The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other enhancements to the draft disclosures. This need arose because of the complexity of the relationships being described, transactions affecting multiple assets and liabilities being reported, and the desirability of an integrated set of disclosures. The Board subsequently modified the draft disclosure requirements to emphasize integration of disclosures.

Related Parties

A82. The Board determined it should define "related parties" and address them within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

A83. Because of the extent of the federal government's relationships – whether already established or implied – "related parties" concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The related parties category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

⁶³ As discussed in paragraph A37 about the Federal Reserve System, the magnitude of its role and transactions led the Board to propose certain minimum disclosures about the central banking system in paragraph 77 of the Statement. However, these are minimum disclosures and depending on the circumstances, some of the listed information may need to be disclosed due to other requirements. The disclosures should be integrated so that concise, meaningful and transparent information is provided and Information is not repetitive

A84. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains. The Board discussed whether jointly controlled component reporting entities should disclose information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, they preferred that OMB explore options for additional guidance through Circular A-136, *Financial Reporting Requirements*, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

Proposed Amendments to SFFAC 2, Entity and Display

A85. The Statement proposes amendments to SFFAC 2, *Entity and Display*. The Statement provides a description of the change to SFFAC 2 and an explanation as to why the change is being made. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.

A86. Paragraphs 54—77 and 79 – 112 of SFFAC address concepts outside the scope of this Statement and are not amended.

A87. In addition, no changes are proposed to paragraphs 11-37 of SFFAC 2 because the Board believes these paragraphs provide the conceptual underpinning for understanding the structure of the federal government and how this relates to reporting entities for general purpose federal financial reporting. Although there may be some small differences in terminology in those paragraphs, the Board did not believe they were significant enough to warrant amendments.

A88. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure organizations—or to continue to exclude the organizations. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

Alternative View

A89. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a Statement. The alternative view discusses the precise point or points of disagreement with the majority position and

the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by Mr. Steinberg and is presented as an alternative view.

A90. Mr. Steinberg believes that in the case of receiverships, conservatorships, and interventions, which Statement of Federal Financial Accounting Concepts (SFFAC) 2 *Entity and Display* determined to be “bail-out entities,” there is a conflict with the Concepts statement. He also believes that using the ownership and control principles to explicitly equate the receiverships, conservatorships, and interventions with the other disclosure organizations gives the impression that the receiverships, conservatorships, and interventions are part of the federal government.

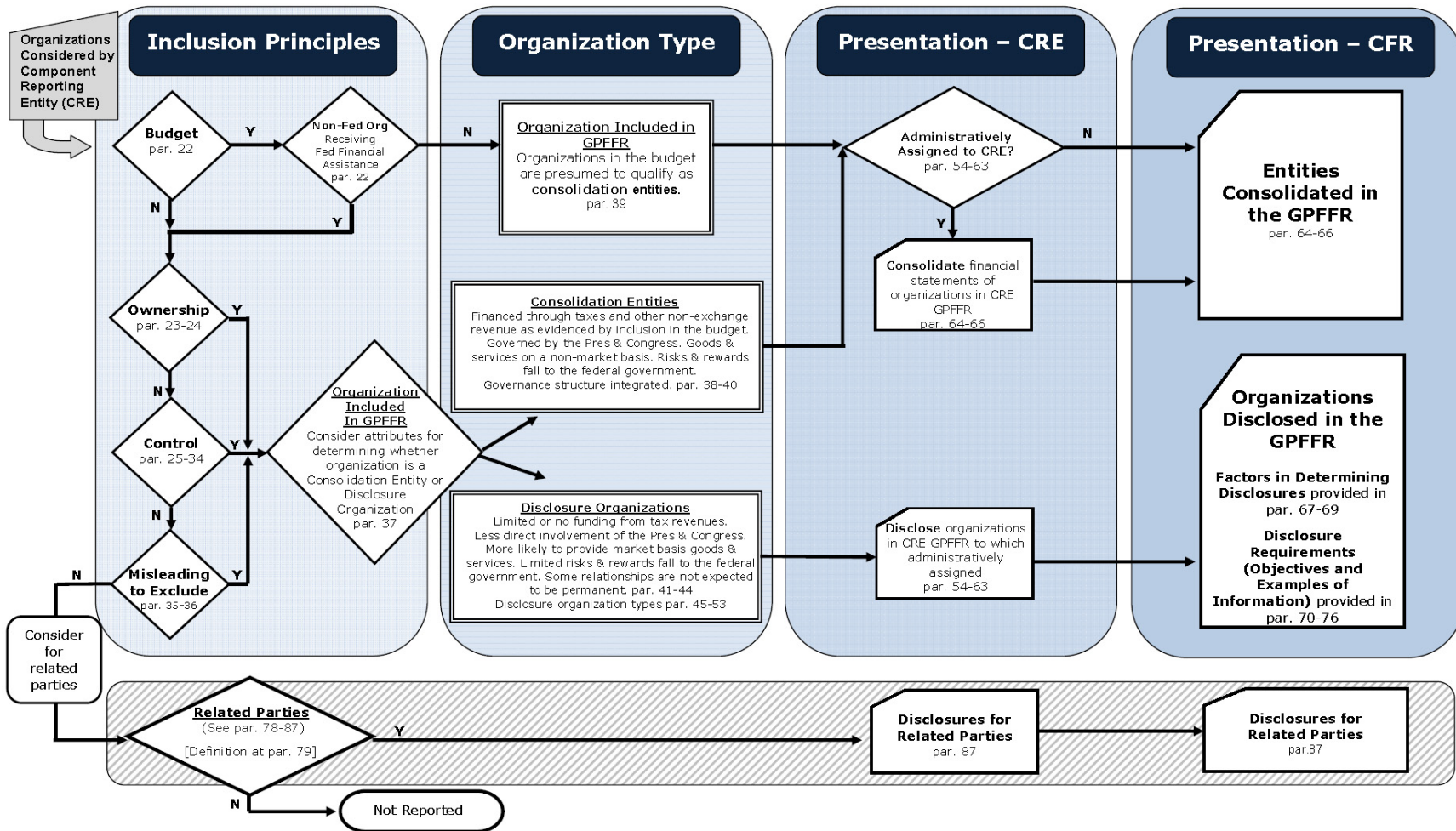
A91. The reason Mr. Steinberg does not believe receiverships, conservatorships, and interventions should be equated with other disclosure organizations is actually presented in the proposed Statement. They represent less than permanent arrangements resulting from Federal government actions to avoid adverse impacts on the nation's economy, commerce, national security, etc. (paragraphs 49, 50, 51, A53). Permanence of a relationship is a fundamental concept when defining parts of an organization. Furthermore, these organizations were established in the private sector, and they carry out activities not intended to be performed by the federal government (paragraphs A48, A50). Equating them with the other disclosure organizations could be viewed as a broadening of the reach of the federal government into the private sector.

A92. Mr. Steinberg points out that eliminating receiverships, conservatorships, and interventions as a defined class of disclosure organization within the proposed standard does not mean there should or would not be disclosure of the financial risks and expectations of benefits associated with these organizations. There are extensive disclosures now, required by both existing accounting standards and the GAAP hierarchy. These disclosures would continue.

A93. Moreover, not all interventions entail ownership or control. An example is an intervention using loan guarantees. Mr. Steinberg believes that a single standard that address all types of interventions and the manner in which they should be reported would be significantly more effective than the proposed standard which addresses only interventions in which there is temporary ownership and/or control. He points out that the Board has started a Risk Assumed project that is likely to encompass interventions. The project could ensure that the disclosures for interventions would address not only the types of disclosures expected for all disclosure organizations in this proposed standard, but also the additional disclosures appropriate for interventions. Examples of the latter are key transactions, financial assistance provided by the central banking system, costs incurred to date, the extent of contingent liabilities associated with the interventions, etc.

APPENDIX B: FLOWCHART

FLOW CHART (Appendix B)



APPENDIX C: ILLUSTRATIONS

Preamble

These 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:

1. represent actual organizations.
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. 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 organizations requires consideration of the circumstances specific to each organization 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 organization. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

ABC Department

(In the Budget—Consolidation 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 the activities of 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 listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” 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 a Consolidation Entity or Disclosure Organization

Further, because it is listed in the budget, ABC is presumed to qualify as a consolidation 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 consolidation entity. As a consolidation entity, ABC’s financial statements 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 consolidation entities would be needed to determine if ABC has been administratively assigned to another component reporting entity. Further consideration would also be needed to identify any consolidation entities or disclosure organizations administratively assigned to ABC.

Epsilon Corporation

(In the Budget – Consolidation 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 governed 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 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.

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 a Consolidation Entity or Disclosure Organization

Further, because it is listed in the budget, Epsilon is presumed to qualify as a consolidation 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 consolidation entity. As a consolidation entity, Epsilon's financial statements 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 consolidation entities would be needed to determine if Epsilon has been administratively assigned to another component reporting entity or has had consolidation entities administratively assigned to it. Also, further consideration would be needed to identify any disclosure organizations administratively assigned to Epsilon for which disclosures are needed.

Sigma Association

(Control based on Persuasive Indicator - Disclosure Organization (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 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.

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 GPFFR 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/or 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 a Consolidation Entity or Disclosure Organization

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 reported as a disclosure organization because it is a financially independent organization. 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 a disclosure organization includes:

1. Tax revenue is not appropriated for ongoing operations.

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

Evidence suggesting that Sigma may be a consolidation entity includes:

1. The President and the Senate, who appoint and confirm, respectively, members of the board of directors as well as establish organizational authorities in legislation, have a governance role.
2. Sigma provides a service that is not available from market participants. Its fees are adjusted to recover losses rather than to respond to market influences. Hence, its fees are not market-based.

Administrative Assignment

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

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

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 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.

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 organization. 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 organization 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.]

- Misleading to exclude – Scholars University is a small not-for-profit that is listed in the Budget solely as a program within the Department of Education. Management determined and the auditors concurred that it is both quantitatively and qualitatively immaterial. Also, there were no other facts and circumstances that would suggest that Scholars University should be included in the GPFFR. As a result, it would not be misleading to exclude.

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR.

Education Research Institute (ERI)

(Control based on Persuasive Indicator – Consolidation Entity)

Assumed Facts and Circumstances

The purpose of the Education Research Institute (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, 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 of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” 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 the 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.

Classification as a Consolidation Entity or Disclosure Organization

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, ERI should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that ERI is a consolidation entity.

Evidence suggesting that ERI is a consolidation entity includes:

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

Evidence suggesting that ERI is a disclosure organization includes:

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

Administrative Assignment

The Department of Education should consider whether or not ERI is administratively assigned to it. Evidence that indicates ERI is administratively assigned includes Education's participation in ERI's budgetary process and inclusion of information regarding ERI in its own Congressional Budget Justification. Having considered the above information and other available evidence, the Department of Education determined and its auditor concurred that it should consolidate ERI's financial statements in its GPFFR.

Mediation Corporation

(Control based on Indicators in the Aggregate –Disclosure Organization)

Assumed Facts and Circumstances

Mediation Corporation (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 the board member positions. 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 the 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 from any public or private grant-making organization. Grants must not finance more than 20 percent 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 *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" 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 percent 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 GPFFR, management considered the remaining inclusion principles—ownership and control. It is unclear, based on the assumed facts and circumstances, whether Mediation is owned by the federal government. Therefore, management must consider the control indicators to determine if the third inclusion principle is met. None of the persuasive indicators of control are present based on the assumed facts and circumstances so considerable professional judgment is required to determine whether – in the aggregate – the indicators provide evidence of control. The indicators suggesting federal government control over Mediation include:

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

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

Classification as a Consolidation Entity or Disclosure Organization

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, Mediation should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Mediation is a disclosure organization.

Evidence suggesting that Mediation is a consolidation entity includes:

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

Evidence suggesting that Mediation is a disclosure organization includes:

1. Members of its governing body are selected by non-federal officials, serve longer terms than political appointees, must include members from different political parties, and may only be removed for cause. These conditions insulate the governing body from political influence.
2. Mediation has some access to non-federal funding through grants and its network of service providers is free to access non-federal funding for service delivery (subject to the 20 percent limitation).
3. Federal government has not assumed risks related to Mediation's liabilities.

Administrative Assignments

The Department of Justice should consider whether or not Mediation is administratively assigned to it. Evidence that indicates it is administratively assigned includes the Department of Justice's participation in Mediation's budgetary process. After considering the above and other factors, and using professional judgment, management at the Department of Justice determined and the auditor concurred that disclosures regarding Mediation should be presented 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). 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 was 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 GPFFR. 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. Management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude BA.

Bicycle America, Inc. (Scenario B)

(Ownership – Disclosure Organization (Intervention))

Assumed Facts and Circumstances

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

Tentative Conclusions

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 organization should be included in the government-wide GPFFR.

Classification as a Consolidation Entity or Disclosure Organization

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 reported as a disclosure organization 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.

Administrative Assignments

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 component reporting entities should also disclose information in their GPFFRs.

Chatham Laboratory

(Control based on Persuasive Indicator – Consolidation Entity (FFRDC))

Assumed Facts and Circumstances

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

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

Chatham operations are funded entirely through appropriations provided to ABC. ABC identifies Chatham in its Congressional Budget Justification but Chatham is not specifically identified in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "*Federal Programs by Agency and Account*." Instead, amounts for Chatham are included in a larger research program which makes payments to the contractor consistent with the terms of the contract. Chatham's contract operator must submit financial and performance reports to ABC periodically. All Chatham assets belong to the federal government and the results of Chatham research are the property of the federal government. In addition, ABC would be responsible for liabilities arising from use of the facilities to conduct research such as environmental cleanup liabilities. ABC is also responsible for employee benefits in the event Chatham operations are terminated.

Tentative Conclusions

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

Classification as a Consolidation Entity or Disclosure Organization

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, Chatham should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Chatham is a consolidation entity.

Evidence suggesting that Chatham is a consolidation entity includes:

1. It is primarily financed by taxes.

2. The federal government has assumed the risks associated with Chatham's liabilities.
3. Chatham's annual budget is developed by ABC officials and information related to Chatham activities is provided in ABC's performance report and Congressional Budget Justification. This indicates that decision-making regarding the budget is exercised by elected officials through politically appointed officials and the budget process.

Evidence suggesting that Chatham is a disclosure organization includes:

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

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

Administrative Assignment

ABC should consider whether or not Chatham is administratively assigned to it. In the example, evidence suggesting Chatham is administratively assigned includes ABC's role in Chatham's strategic planning, budgeting, and administration. Having considered the assumed facts and circumstances and other available evidence, the Department of ABC determined and its auditor concurred that it should consolidate Chatham's financial statements 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 GPFFR. Gotham is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.” Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either majority ownership or control with risk of loss or expectation of benefit. 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. Further, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude Gotham.

Andromeda Prime Power Systems

(Related Party- GSE)

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.

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.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be reported in the government-wide GPFFR as a consolidation entity or disclosure organization. APPS is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” and the federal government does not have a majority ownership interest in the company.

Further, management conducted a thorough assessment of control indicators and determined the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

However, based on the assumptions and other considerations, management determined and the auditor concurred that APPS should be disclosed as a related party. Related parties generally include GSEs not meeting the inclusion principles, especially those organizations for which the relationship is of such significance that it would be misleading to exclude information about it.

U.S. Museum (Scenario A)

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

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.

Tentative Conclusions

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

Classification as a Consolidation Entity or Disclosure Organization

Because it is listed in the budget, the Museum is presumed to qualify as a consolidation 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 the Museum is a consolidation entity. As a consolidation entity, its financial statements should be consolidated in the government-wide GPFFR. The financial statements included should be for the entire organization and thus include the sources and uses for both the appropriations and the donated funds.

Administrative Assignment

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

U.S. Museum (Scenario B)

(Control based on Persuasive Indicator –Disclosure Organization (Financially Independent))

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 organization 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 percent of operations and activities, with the remaining 85 percent coming from donor activities, rental income, 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.” 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 GPFFR 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 a Consolidation Entity or Disclosure Organization

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, the Museum should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances

presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that the Museum is a disclosure organization.

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

1. Appointments to the Council are made by elected officials.
2. Museum services, educational events and tours, are provided on a non-market basis to the general public.

Evidence suggesting that U.S. Museum is a disclosure organization includes:

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

Disclosure organizations should be presented by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

Administrative Assignment

Management determined and the auditor concurred the Department of Federal Museums should present the Museum as a disclosure organization in its GPFFR because the department is assigned administrative responsibility for the Museum based on appointment of its head to serve as chairperson of the Council.

Firefighters' Housing Limited Partnership

(Owned and Controlled - Consolidation Entity)

Assumed Facts and Circumstances

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

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

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

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

Tentative Conclusions

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

1. Agency 123 may be able to direct the partnership regarding the establishment and subsequent revision of financial and operating policies through its review and approval of operating budgets, designs, and condition of the facilities. If so, this would be a persuasive indicator of control. Management should weigh the impact of its role in directing the FHLP's financial and operating policies and consider how much discretion falls to the private sector partner.

2. Other indicators in the aggregate may indicate control. Agency 123 has significant authority to:
 - a. direct the ongoing use of assets.
 - b. approve the budgets and business plans for FHLP.
 - c. require audits.
 - d. limit borrowing and investment by FHLP.

Classification as a Consolidation Entity or Disclosure Organization

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, FHLP should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that FHLP is a consolidation entity.

Evidence suggesting that FHLP is a consolidation entity includes the following:

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

Evidence suggesting that FHLP is a disclosure organization includes the following:

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

As a consolidation entity, FHLP's financial statements should be consolidated by the component reporting entity to which it is administratively assigned.

Administrative Assignment

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

The Blue Mountain Observatory

(Control based on Indicators in the Aggregate – Disclosure Organization (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. expend funds to meet ongoing operational needs.
2. make annual cash contributions to employee benefits programs (accrued leave and pension plans).
3. make annual payments due under long-term leases.
4. construct or purchase new assets so long as all resulting property is titled to BMO.

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

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BMO should be included in the government-wide GPFFR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” so other inclusion principles must be considered. BMO facilities are owned by the federal government and new assets are titled to the federal government. With respect to the control inclusion principle, Agency XYZ establishes the fundamental purpose and mission of BMO through its participation in strategic planning and the overall effort to ensure BMO goals are consistent with Agency XYZ research goals. This effort includes annual actions to approve BMO’s annual program plan and operating budget. These actions are persuasive indicators of control.

Classification as a Consolidation Entity or Disclosure Organization

Evidence suggesting that BMO is a consolidation entity includes the following:

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

Evidence suggesting that BMO is a disclosure organization includes the following:

1. BMO has a legal identity separate from Agency XYZ.

2. The governance structure ensures that universities have substantial input regarding BMO's strategic plans and annual program plan. The significant involvement of non-governmental organizations lessens political influence.
3. BMO's liabilities are not obligations of the U.S. government.
4. BMO is authorized to accept donations from non-government organizations.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO should be reported as a disclosure organization. As a disclosure organization, BMO should be presented by the component reporting entity to which it is administratively assigned.

Administrative Assignment

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

Table 1: Summary Application of Proposed Standard

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
ABC Department	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
Epsilon Corporation	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
Sigma Association	No	No	Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate and they established its fundamental purpose and mission through legislation.		Yes		Financially independent organization
Scholars University	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.	Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No		
Education Research Institute	No	No	Yes, the federal government can unilaterally dissolve ERI and have access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is primarily funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and federal government assume risk.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Mediation Corporation	Yes but as a non-federal organization receiving federal financial assistance. Therefore, must assess against other principles.	No	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 federal government.
Bicycle America, Inc. (Scenario A)	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment	No, Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No. Advisory committee offers advice but does not have the authority to direct BA to act.		
Bicycle America, Inc. (Scenario B)	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
Chatham Laboratory (FFRDC)	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 taxes, and governance rests with the President and Congress.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Gotham Laboratory	No	No	No	No, Management and auditor agreement based on facts and circumstances it was not material to exclude.	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
Andromeda Prime Power Systems (GSE)	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No, Management determined and the auditor concurred APPS should be disclosed as a related party.		
U.S. Museum (Scenario A)	Yes				Yes	Yes. The Museum is in the budget and primarily funded by taxes and governance rests with the President and Congress.	
U.S. Museum (Scenario B)	Yes but as a non-federal organization receiving federal financial assistance	No	Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent organization.
Firefighters' Housing Limited	No	Ownership of property is	Yes. Agency 123 has significant authority to direct the limited partnership's activities and to		Yes	Yes. Taxes fund the housing and risks have	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Partnership		retained.	affect day-to-day activities such as in design and construction and the partnership's purpose is to carry out federal missions and objectives.			been assumed	
Blue Mountain Observatory (FFRDC)	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.

APPENDIX D: ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
C.F.R.	Code of Federal Regulations
CFR	Consolidated Financial Report of the U.S. Government
CRE	Component Reporting Entity
CRS	Congressional Research Service
ED	Exposure Draft
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFRDC	Federally Funded Research and Development Center
FRS	Federal Reserve System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
OAI	Other Accompanying Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States
U.S.C.	United States Code

APPENDIX E: TASK FORCE MEMBERS

Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

Terry Bowie, (formerly of) NASA

James L. Chan, University of Illinois at Chicago

Naresh Chopra, Department of Labor

Wendy Calvin, DOT

Tom Daxon, Former Oklahoma State Auditor

Ann Davis, U.S. Department of Treasury

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Abe Dymond, GAO

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Andrew Lewis, KPMG

Rick Loyd, Department of Energy

Ned Maguire, (formerly of) Office of the Dir. of National Intelligence, OIG

Sam Papenfuss, CBO

Reginald Royster, HUD

Fred Selby, U.S. Department of Treasury, OFS

Gary Solamon, (formerly of) Department of Commerce, Bureau of Economic Analysis

Sandy Van Booven, National Reconnaissance Office (CIA)

Denise Williams, U.S. Department of Treasury, FMS

Adrienne E. Young, (formerly of) National Science Foundation

APPENDIX F: GLOSSARY

Component Reporting Entity “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.⁶⁴ Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Conservatorship A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition. In a conservatorship, the powers of the company’s directors, officers, and shareholders are transferred to the designated conservator.⁶⁵

Control with risk of loss or expectation of benefit Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶⁶

Disclosures Information in notes or narrative regarded as an integral part of the basic financial statement.

Federally Funded Research and Development Center Federally Funded Research and Development Center (FFRDC) is a government-funded entity that has a long-term contractual relationship with one or more federal agencies.⁶⁷ FFRDCs can be privately owned or government-owned, and they serve to meet the long-term research and development needs of federal agencies that could not otherwise be met as effectively in-house or through existing contractors. 49 Fed. Reg. at 14,464; 48 C.F.R. § 35.017(a). FFRDCs are established either specifically in statute or under the statutory authority of agencies to enter into contracts, which can be inherent or specific authority, and are used to perform research and development and related tasks.

General Purpose Federal Financial Reports General purpose federal financial reports (GPFFRs) is used throughout this Statement as a generic term to refer to the report that contains the reporting entity’s financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government-wide reporting entity is known as the consolidated financial report of the U.S. Government

⁶⁴ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶⁵ Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

⁶⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁶⁷ The Office of Federal Procurement Policy (OFPP) and Federal Acquisition Regulation (FAR) policies for FFRDCs apply to executive agencies, which includes “an executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. § 9101.” 48 C.F.R. § 2.101; see also 5 U.S.C. § 403.

(CFR) and for component reporting entities it is usually included in the performance and accountability report, the agency financial report, or the annual management report.

Government Sponsored Enterprise Government Sponsored Enterprise (GSE) is created by Congress with its particular attributes defined in its enabling legislation and charter. Despite this diversity, there are at least four readily observable characteristics of GSEs: (1) private sector ownership, (2) limited competition, (3) activities limited by congressional charter, and (4) chartered privileges that create an inferred federal guarantee of obligations.⁶⁸

Receivership Receivership is the legal procedure for winding down the affairs of an insolvent institution.⁶⁹

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.

Reporting Entity Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity.

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁷⁰ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
- c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.

⁶⁸ CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

⁶⁹ *Managing the Crisis: The FDIC and RTC Experience*, Appendix B - List of Abbreviations and Glossary of Terms; available online at <http://www.fdic.gov/bank/historical/managing/>; last accessed October 11, 2012.

⁷⁰ SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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