Federal Accounting Standards Advisory Board

**August 16, 2012**

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Federal Reporting Entity--Tab B**[1]

## MEETING OBJECTIVES

- To approve changes to the Draft Exposure Draft (ED) *Identifying and Reporting upon Organizations to Include in General Purpose Federal Financial Reports.*

The objectives for the August Board meeting are to approve changes since the last meeting to the Draft ED. These changes and actions on related party will enable staff to prepare a pre-ballot ED for review at the October meeting.

The Board will also be asked to consider an alternate version of the proposed standards section of the ED that incorporates certain proposed language from Mr. Steinberg. As you may recall, it was agreed that Mr. Steinberg would develop new language for reconsideration at this meeting.

## BRIEFING MATERIAL

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

[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.

- Attachment 1: Draft ED *Identifying and Reporting upon Organizations to Include in General Purpose Federal Financial Reports*
- Attachment 2: Alternate Draft of Proposed Standards (including both a tracked changes and a clean version)
- Attachment 3: SFFAC 2, *Entity and Display*

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 June meeting, the Board deliberated many issues in the proposed standard and agreed upon certain changes. Staff implemented those changes.

## NEXT STEPS

The goal of completing the ED shortly after the October 2012 meeting may require review of part or all of the ED between meetings.

It will most likely be contingent upon the Board's decisions and extent of changes after the consideration of a member's proposal to revise the principles and terms in the ED as well considering the Board's views regarding related party.

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## 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. Updated Exposure Draft for Decisions at June Meeting and Other Changes*

The goal of the session is to approve changes incorporated into the ED as well as identify any remaining member concerns with the ED. As you will see in the Marked Version of the ED, staff updated the document for the decisions made at the June meeting.

After considering the June minutes carefully, staff incorporated into the ED agreed upon wording changes and suggested language revisions made by Board members during and following the June meeting.

For example, the additional requirements for non-core entities exercising sovereign powers (now paragraph 71) were moved after the examples. In addition, requirements to disclose relevant activity and future exposures language (from paragraph 69 b and c) were repeated in paragraph 71 for clarity of the objectives.

There were several other changes agreed upon and detailed in the minutes. (See changes noted throughout Attachment 1—**Draft ED** which reference the page number of the June minutes.)

Certain changes staff wanted to point out to the Board as they relate to new language for the Board's review as described below.

A member asked if there could be a situation where there are material transactions not meeting par. 55 and therefore core and non-core entities for which a component reporting entity has been assigned accountability responsibilities would not be included in the GPFFR. He suggested that perhaps there should be a catchall some where for material transactions (versus just the managerial or accountability functions and responsibilities as described). Staff agreed to consider the issue before the next meeting.

Staff determined the best resolution would be to add the following to paragraph 55 d. (10.) as an example of a continuing relationship

> (10.) significant financial transactions or balances that indicate ongoing managerial involvement.

**Question 1 for the Board:**

**Does the Board generally agree with the proposed language to address material transactions that may not otherwise meet the criteria in par 55?**

A member also requested staff to consider the last sentence of par. 59 because the organization could be part of another component reporting entity as well, not only the government-wide GPFFR.

Staff proposes the following language:

While such conditions are expected to be rare, if it would be misleading to include the organization in the component reporting entity GPFFR, the organization may be excluded so long as it prepares its own GPFFR which is consolidated in a larger reporting entity (which could be the government-wide reporting entity or another component reporting entity).

**Question 2: for the Board:**

**Does the Board generally agree with the proposed language to address that the organization could be a part of a component reporting entity as well as the government-wide GPFFR?**

At the June meeting, the Board considered a Marked Statement showing amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. It provided an overview of existing paragraphs that staff anticipated would be rescinded as well as some other changes that included some additional language. The Board generally approved those changes as well as staff's plan to rescind additional paragraphs in the introduction. Staff was also directed to consider whether a stronger accountability link could be made in SFFAC 2.

For this meeting, staff has proposed amendments to SFFAC 2 for incorporation into the Draft ED. The purpose of the section of the Statement is to propose amendments to SFFAC 2 by providing 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 and are a result of concepts that go beyond conceptual guidance and appear to establish standards within a concepts statement. Deleting this will avoid any confusion regarding the role of the inclusion principles presented in the draft standards without creating a void in concepts.

As directed by the Board, minimal conforming changes have been proposed to SFFAC 2. Therefore, no changes were made to paragraphs 54—77 and 79 – 112, because those concepts are outside the scope of the ED. In addition, paragraphs 11-37 remain as is with no proposed changes.

The proposed language for the *Effect on Existing Concepts-- Proposed Amendments to SFFAC 2, Entity and Display,* can be found in the ED at paragraphs 77-91.

**Question 3 for the Board:**

**Does the Board generally agree with the Proposed Amendments to SFFAC 2, *Entity and Display*?**

There were other changes incorporated into the ED, either suggested by Board members or staff and staff believed improved the document. Most were minor or editorial in nature and don't warrant an explanation in this memo.

In addition, staff wanted to note the following additional changes:

- Staff updated the Executive Summary to provide a better overview of the Statement and description of core and non-core entities.
- Added new questions for respondents.
- Included an effective date for the proposed standard based on the implementation timeline provided by the sponsor agencies and discussed by the Board at the last meeting. The effective date is for periods beginning after September 30, 2015.
- The Basis for Conclusions was updated to reflect decisions made at recent meetings.

**Question 4 for the Board:**

**Does the Board generally agree with the proposed language—to update the executive summary, questions for respondents, effective date and basis for conclusions?**

**Question 5 for the Board:**

**Does the Board have any questions or comments on any of the other proposed changes referenced above or on any of the ones noted throughout the ED?**

**Question 6 for the Board:**

**Does the Board wish to bring up any technical issues or concerns that should be addressed before moving toward a pre-ballot draft?**

## *2. Alternate Draft of Proposed Standards*

At the June meeting, Mr. Steinberg expressed concern with several aspects of the proposed standards. As detailed in the minutes, he explained there was issue with what one considers core and non-core. In addition he had concern with the treatment of Federal Reserve and bailout entities. He had worked on an outline with another member and Chairman Allen requested that he bring proposed language to the August meeting for the Board's consideration.

Attachment 2: Alternate Draft of Proposed Standards provides the new language and was finalized by Mr. Steinberg.

Based on a quick review of the alternative, staff notes the following differences between the alternate draft and the ED:

1. Revised key terminology by replacing the following: 'core' with 'consolidated' and 'non-core' with 'disclosed'
2. Changed the 'included' in GPFFR language to 'reported' in GPFFR
3. Added a definition of sovereign powers
4. Required disclosures about intervention entities even if they are not owned or controlled so that all interventions are addressed in a single standard
5. Additional/ Revised language on Receiverships and Conservatorships
6. Added "governmental" entities with Quasi-governmental and/or Financially Independent as an illustrative type of disclosed entity
7. Added an objective for the disclosures relating to "disclosed" entities for "Organization" so that readers will understand the governance structure that differentiates the disclosed entity from consolidated entities
8. Removed the enumerated disclosures tailored to and required for entities exercising powers reserved to the sovereign

While the above list may not be all encompassing of the differences, it highlights the main differences. From these, staff notes the following initial concerns with moving forward with this alternate proposal:

**New Terms—**While the new terms 'consolidated entities' and 'disclosed entities' adequately describe the financial statement presentation of core and non-core entities and could be made workable, staff does not believe the change provides greater clarity and, therefore, a better alternative for the proposed standard. Staff recalls when the Board voted on the terms "core" and "non-core" during the December 2010 and ultimately at the February 2011 meetings, the Board considered several factors—but the deciding factor was that they were 'new terms' and could not be confused with terms used by other standards setters while trying to avoid any bright lines. Staff believes the terms 'consolidated' and 'disclosed' are not new terms and have well known meanings that make it challenging to read and understand in the alternative standards. For

example, other entities may also be "disclosed" in reports such as entities that are party to lawsuits, partners in joint ventures, or even related parties. Further, adapting to "reporting" – as a replacement for "inclusion" - is equally challenging when one considers the meaning compared to 'including an organization in the reports.'

**Other Technical Issues—**Staff also notes there will be other technical areas that will have to be revisited, such as clarity regarding receiverships and conservatorships that may eventually assume characteristics of core/consolidated entities. Further, whether the additional disclosure objective for non-core/disclosed entities overlaps with other objectives and is relevant for all non-core/disclosed entities should be considered.

Staff has not had an opportunity to review the ED sufficiently to identify all potential areas, but will need to do so if the Board adopts all or part of the alternative draft. Note, however, that our brief review did find some editorial changes that are clear improvements. Where an improvement in wording does not change a requirement, we will adopt the edit in the next version.

**Question 7 for the Board:**

Mr. Steinberg provided the following discussion questions regarding his alternative:

> I also suggest that neither this draft nor any other draft be word smithed[2] until the Board members resolve five key issues. They are:

1) Should Federal Reserve System be part of GPFFR? ( I assume this has been resolved, but one never knows.)

2) For a principles-based standard, in which there should be no uncertainty regarding inclusion of the Federal Reserve System in the GPFFR, is the Consolidated/Disclosed construct (with Disclosed encompassing Quasi-Governmental/Financially Independent, Receiverships and Conservatorships, and Interventions) preferable to the original core/non-core construct?

3) Is inclusion of the Federal Reserve System as a disclosed entity rather than consolidated acceptable to the Members?

4) What are the principles that support designation of the Federal Reserve System as a disclosed entity rather than a consolidated entity?

5) Is the language addressing the required disclosures sufficient? (I don't think Board should rely on the fact that there has been disclosures since 1997 by the former and present preparers and auditors. That can change.).

[2] Note that Mr. Steinberg's material is included last because it arrived after the remaining materials were complete. This does not require that it be discussed last at the meeting.

Per Hal - There are some other issues that need to be addressed also. One is explaining why the General Fund, which is a fund, not an organization, should be included in the GPFFR. Another is whether disclosures for the museums and universities, which are a combination of amounts in the budget and amounts received from donors, grantors, and others, should a) describe the bifurcated nature of the organizations, and/or b) be concerned with only the appropriated funds or with the entire organization.

## QUESTIONS FOR THE BOARD

1. **Does the Board generally agree with the proposed language to address material transactions that may not otherwise meet the criteria in par 55?**

2. **Does the Board generally agree with the proposed language to address that the organization could be a part of a component reporting entity as well as the government-wide GPFFR?**

3. **Does the Board generally agree with the Proposed Amendments to SFFAC 2, *Entity and Display*?**

4. **Does the Board generally agree with the proposed language—to update the executive summary, questions for respondents, effective date and basis for conclusions?**

5. **Does the Board have any questions or comments on any of the other proposed changes referenced above or on any of the ones noted throughout the ED?**

6. **Does the Board wish to bring up any technical issues or concerns that should be addressed before moving toward a pre-ballot draft?**

7. **Mr. Steinberg's questions are:**

1) Should Federal Reserve System be part of GPFFR? ( I assume this has been resolved, but one never knows.)

2) For a principles-based standard, in which there should be no uncertainty regarding inclusion of the Federal Reserve System in the GPFFR, is the Consolidated/Disclosed construct (with Disclosed encompassing Quasi-Governmental/Financially Independent, Receiverships and Conservatorships, and Interventions) preferable to the original core/non-core construct?

3) Is inclusion of the Federal Reserve System as a disclosed entity rather than consolidated acceptable to the Members?

4) What are the principles that support designation of the Federal Reserve System as a disclosed entity rather than a consolidated entity?

5) Is the language addressing the required disclosures sufficient? (I don't think Board should rely on the fact that there has been disclosures since 1997 by the former and present preparers and auditors. That can change.).

Federal Accounting Standards Advisory Board

# Identifying and Reporting upon Organizations to Include in General Purpose Federal Financial Reports

## Statement of Federal Financial Accounting Standards

## Exposure Draft

Written comments are requested by Date 90 days after issuance

Month Date, Year

Working Draft – Comments are Not Requested on This Draft

**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 for comment, or preliminary views document may be published before an exposure draft is published 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

September 30, 2012

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

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Identifying and Reporting upon Organizations to Include in General Purpose Federal Financial Reports*. Specific questions for your consideration appear on pages 7-XX 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 January 25, 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.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19~~K17V~~
441 G Street, NW, Suite 6814
Washington, DC 20548

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 February 27, 2013, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.

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 (GPFFR). The principles proposed to guide financial reporting recognize the complex tools available to and used by elected officials to tackle public problems. Those tools include the ability to create organizations with varying legal designations (for example, government agencies, not-for-profit organizations, corporations) and degrees of autonomy. The principles herein are not intended to establish whether an entity is or should be considered a federal agency for legal or political purposes. Instead, t~~T~~his exposure draft (ED) provides principles to guide preparers in determining what organizations are required to be included in the reporting entity's GPFFR for accountability purposes.

The government-wide GPFFR should include all organizations (1) budgeted for by federally-elected officials of the federal government, (2) owned by the federal government, and (3) controlled by the federal government with the expectation of benefits or risk of loss. When one of these three conditions exists, the Board believes certain information regarding the organization is necessary to provide accountability.

This ED also provides criteria for determining the most appropriate means to present information about the organization. Consolidated financial statements presenting the financial position and results of operations for those organizations financed by the taxpayer, governed directly by elected or appointed officials, and relying on the taxpayer to settle liabilities are appropriate. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in aggregate – the net cost financed by the taxpayers and 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 "core entities."

Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are intended to be non-taxpayer funded and insulated from political influence. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and financial position of the organizations. Instead, information about these types of organizations should be disclosed so that the nature of the relationship, relevant activity during the reporting period, and future exposures to risks and rewards are revealed. Organizations to be disclosed in GPFFR are referred to as "non-core entities."

**Comment [owner1]:** Additional information about core/non-core was added.

~~The Board proposes each component reporting entity include all organizations for which it is accountable; that includes all core and non-core entities administratively assigned to it. The Board proposes financial information of core entities be consolidated and information about non-core entities be disclosed in the GPFFRs.~~ The Statement allows flexibility in the disclosures as long as the disclosures meet the objectives described in ED. ~~The objectives are that information should be provided about the core entity's relationship with the non-core entities, the relevant activity during the reporting period, and future exposures to risks and rewards.~~

The Board proposes each component reporting entity include all organizations for which it is accountable; that includes all core and non-core entities administratively assigned to it.

Related party-open issue Tab C in August.

The proposed Statement would be effective for periods beginning after September 30, 20~~XX~~15. 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 identifying organizations that should be included in the financial reports of the government-wide reporting entity and component reporting entities. This will ensure that users of GPFFR are provided with comprehensive financial information about federal reporting entities and ~~its~~ relevant activities and relationships ~~so as~~ to ~~determine whether~~meet federal financial reporting objectives ~~are met~~.

In meeting the *Objectives of Federal Financial Reporting*, identifying the organizations for inclusion in the government-wide reporting entity and component reporting entities is~~are~~ critical to creating transparent reports to support accountability. As a democracy, elected officials are to be held accountable to the public and financial statements provide ~~them with~~ a means of doing so.[1] In order to achieve accountability, the content and structure of the financial reports should be clear, complete and comprehensible~~ve~~ to citizens.

[1] Par. 74, SFFAC 1, *Objectives of Federal Financial Reporting*.

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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 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 proposals may be modified before a final Statement is issued, it is important that you comment on proposals 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 www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6~~K17V~~H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by January 25, 2013.

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

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

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

Refer to paragraphs 18-33 of the proposed standards and paragraphs A14- A31 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 related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**

c. **Do you agree or disagree with the addition of a *Misleading to Exclude principle*? Please provide the rationale for your answer.**

Q2. The Board proposes two types of entities for inclusion in general purpose federal financial reports: core entities and non-core entities. Core entities are (1) generally taxpayer supported as evidenced by their inclusion in the budget, (2) being governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the taxpayer, and/or (4) providing ~~core federal government~~ goods and services on a non-market basis. In contrast, non-core entities are those that (1) receive limited or no taxpayer support, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) are more likely to provide market based goods and services, and/or (4) impose limited risks and rewards on the taxpayers.

The Board proposes core entities be consolidated in the government-wide financial statements. The Board proposes that information about non-core entities be disclosed in the government-wide report. The Statement allows flexibility in the disclosures as long as the disclosures meet the objectives described in Disclosures for Non-core Entities after considering the Factors in Determining Non-Core Entity Disclosures.

Refer to paragraphs 35- 50 and 61-71 of the proposed standards and paragraphs A34~~A50~~, A49, A59 and A65-A76 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. **Do you agree or disagree ~~with the~~there is a need to distin~~guish~~~~ction~~ between core and non-core entities? Please provide the rationale for your answer.**

b. **Do you agree or disagree with the attributes used to make the distinction between core and non-core entities? Please provide the rationale for your answer.**

c. **Do you agree or disagree with the requirements for reporting on core and non-core entities? Please provide the rationale for your answer.**

Q3. For core entities, the Statement would require consolidation of FASAB and FASB based information without conversion.

Refer to paragraph ~~62~~63 of the proposed standards and paragraphs A60-A64 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the above referenced requirement? Please provide the rationale for your answers.**

Q4. The Board proposes each component reporting entity include organizations for which it is accountable; that includes core and non-core entities administratively assigned to it, and non-core entities with which it has a comprehensive relationship. Administrative assignments can be identified by evaluating: the scope of the budget ~~and budget approval~~ process, whether accountability is established within a component entity, and other significant relationships ~~considerations~~that may be misleading to exclude and/or misleading to include.

Refer to paragraphs 51-60 of the proposed standards and paragraphs A50-A56 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the above referenced requirement? Please provide the rationale for your answers.**

Q5. SFFAC 2 identified certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises and Bailout Entities) that should not be considered part of the government-wide reporting entity. The Board is proposing new principles that can be applied to the entities previously excluded and conclusions reached if a previously excluded entity is to be include based on these principles, principles are proposed to decide ~~to consider~~ whether the entities are core or non-core entities. These decisions would ~~and accordingly may~~ affect ~~the manner in which they~~ whether or how they are included in the general purpose federal financial reports. Therefore, SFFAC 2 is being amended to remove ~~those~~ these specific provisions.

Refer to paragraph A77 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree? Please provide the rationale for your answer.**

Q6. Related Party Question (Tab C)-- open issue TBD.

~~Q6.~~

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Q7. The Board proposes minimal conforming changes to SFFAC 2 to rescind or amend language that appear to establish standards within a concepts statement. Deleting this will avoid any confusion regarding the role of the inclusion principles presented in the draft standards without creating a void in concepts.

Refer to paragraphs 77-91 of the proposed standards and paragraphs A78-A80 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the amendments? Please provide the rationale for your answer.**

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Q8. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display* have an effective date of periods beginning after September 30, 2015.

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

Q9. The Statement includes two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a helpful tool 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 for the full explanation.

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?

~~Q7. Question on SFFAC conforming amendments~~

~~Q8.~~Q10. 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.

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## Introduction

### Purpose

1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, general purpose federal financial reports[2] (GPFFR) for the government-wide reporting entity should be broad enough to report the Congress and/or the President's accountability for ~~the federal government and~~ those organizations. In addition, component reporting entity financial reports should allow the Congress and the President to hold management accountable for implementation of public policy decisions. 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.[3] Standards that can be used to identify organizations to include in the financial reports of the government-wide reporting entity and each component reporting entity are important to meeting federal financial reporting objectives.

2. This Statement guides preparers of GPFFRs in determining what organizations to include in the financial reports, whether such entities are core (consolidated) or non-core[4] (disclosed), and what information should be presented. This 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.

3. The guidance recognizes the substance of the relationship between the federal government and an organization may not be reflected by an organization's legal form. As such, the legal form or designation of an organization does not always determine whether it should be included in the government-wide GPFFR~~reporting entity~~. Even in cases where legislation indicates an organization is "not an

**Comment [owner2]:** Adding reference regarding consolidated & disclosed was suggested by a member to lessen confusion about the difference and meaning of included in the financial reports

**Comment [owner3]:** Member requested the terms core & non-core be referenced since introduced for the first time.

[2] The term "general purpose federal financial report" is used throughout this Statement as a generic term to refer to the report that contains the 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 Financial Report of the U.S. Government and for component reporting entities it is usually called the Performance and Accountability Report, the Agency Financial Report, or the Annual Management Report.

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

[4] The distinction between core and non-core entities is based on the degrees to which the entity is (1) supported by taxpayers, (2) governed by elected or appointed officials, and (3) imposing risks on the taxpayer. See par. 34 - 50 for information about Core Entities and Non-core Entities.

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 is the result of an indication of the 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

4. 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

5. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFR) 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*.

6. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable 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 entities applying SFFAS 34,

   c. the manner in which ~~what~~ information should be presented for organizations included in the GPFFR, and

   d. what, disclosures, if any, are needed regarding related parties.

**Comment [owner4]:** *Member suggested change to build on the concepts statement Entity and Display.*

### Definitions

Definitions in paragraphs 7 through 10 are presented first because of their importance in understanding the Statement. Other terms shown in boldface type the first time they appear in this document are presented in the Glossary at Appendix D. Respondents to this proposal may want to examine all definitions before reviewing the Statement and Basis for Conclusions.

7. **Reporting Entity** ~~The term "reporting entity" refers to both the government-wide reporting entity and component reporting entities (see definitions below).~~ Reporting entities are entities 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~~s~~ to ~~both~~either the government-wide reporting entity ~~and~~or a component reporting entity~~ies~~ (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.[5] The criteria focus on whether an entity should issue GPFFRs and are that a reporting 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.

~~SFFAC 2 further provides that a GPFFR should provide "all the information that is relevant to the reporting entity, subject to cost and time constraints." Therefore, a reporting entity's GPFFR should include information regarding all organizations for which it is accountable.~~

**Comment [WP5]:** Staff edit to remove text not relevant to the definition.

8. **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.

9. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.[6] Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components ~~that are~~ included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau of a larger department that prepares a standalone GPFFR. ~~Other examples include~~

[5] SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

[6] The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

~~commercial functions, revolving funds, and/or other accounts for which GPFFRs are prepared.~~

10. **Control with expected benefits or risk of loss** Control with expected benefits or risk of loss is 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[7] or be obligated to provide financial support or assume financial obligations.

**Organizational Approach to Defining Boundaries**

11. 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 other perspectives,[8] such as a program perspective, an organizational approach was established in SFFAC 2[9] as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of 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 government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

12. 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. ~~Some differences in purposes and governance structures require differences in presentation of financial information.~~ For example, certain ~~organizational~~ distinctions must be maintained for financial reports to meet the reporting objectives established in SFFAC 1. In such cases, disclosures about the organization rather than financial information consolidated across all organizations may better meet these objectives.

~~13. Thus, decisions about reporting entities should be taken in two steps – first, determining what organizations are to be included in the GPFFR and second,~~

[7] 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.
[8] SFFAC 2, par. 13-28 discusses the budget and program perspectives of the federal government, as well as the intertwining of the perspectives.
[9] SFFAC 2, par. 31-38.

~~identifying the appropriate means to present relevant information about the organizations.~~

~~14.~~13. This Statement first establishes the principles for including organizations in the government-wide GPFFR (see Principles for Inclusion in the Government-wide GPFFR) then distinguishes between core entities (consolidated) and non-core entities (disclosed) (see section 'Organizations - Core Entities and Non-core Entities' which describes these types of entities).

~~15.~~14. This Statement also establishes that component reporting entities must identify and include in their GPFFRs all core and non-core entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

~~16.~~15. Lastly, the Statement addresses presentation of financial information based on those decisions (see ~~Reporting Entit~~GPFFR~~y~~ Consolidation and Disclosure).

**Comment [WP6]:** To update the reference.

16. ADD RELATED PARTY (Tab C)

### Principles for Inclusion in the Government-wide GPFFR

17. To determine which organizations should be included[10] in the government-wide GPFFR, this Statement provides three principles for inclusion and also requires inclusion of organizations if it would be misleading to exclude them (see par. 33).

18. 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

    c. Control with Expected Benefits or Risk of Loss

In the Budget

[10] 'Included' means an organization's information is either consolidated or disclosed.

19. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *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 Expected Benefits or Risk of Loss*) to determine whether they should be included in the government-wide GPFFR.

Majority Ownership Interest

20. The federal government (directly or through its components) may have an ownership interest[12] 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.

*21.* Majority ownership interest exists with over 50% of the voting rights or net residual assets[13] of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization it should be included in the government-wide GPFFR.[14]

Control with Expected Benefits or Risk of Loss

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

[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 Glossary FASAB Pronouncements as Amended as of June 30, 2011.*

[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 ~~entity~~ organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

**Control with expected benefits or risk of loss** is 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[15] benefits or be obligated to provide financial support or assume financial obligations. Both the power and either the expected benefit or risk of loss aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with expected benefits or risk of loss is referred to as "control."

23. 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.

24. 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.

25. 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 ~~will~~is ~~be~~ 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 ~~will have~~has the power to act independently and, while the federal government may have a level of influence, it ~~will be~~ is clear that it does not have control—such as another sovereign government.

### *Indicators of Control*

26. 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.

[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.

27. 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 power of the federal government and requiring the organization to carry out federal missions and objectives;

    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.

28. Other indicators provide evidence that control exists, 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;

    ~~b.~~c. direct investment decisions including to liquidate investments;

    ~~c.~~d. appoint or remove key executives or personnel;

    ~~d.~~e. approve the budgets or business plans for the organization;

    ~~e.~~f. require audits;

    ~~f.~~g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;

**Comment [owner7]:** Suggested by member because judgment is still required in assessment

[16] Congressionally chartered nonprofit organizations identified under 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 28 or another indicator in this paragraph.

~~g.~~h. finance the deficits of, provide financial support to, or settle liabilities of the organization;

~~h.~~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;

~~i.~~j. establish, rescind, or amend the organization's governance framework ~~by requiring it to adhere to routine requirements such as annual audits, establishment of internal controls, or other governance matters~~;

k. establish limits or restrictions on borrowing and investments of the organization; or

~~j.~~l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

**Comment [owner8]:** Suggested removal at meeting because would apply to all public companies. See June minutes page 30

***Situations Where Control Does Not Exist***

29. Because of the uniqueness of the federal government, 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.

30. 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.

31. 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 Principle

32. There may be instances when an organization does not meet the inclusion principles in paragraphs 18 through 28 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.[17]

33. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

**Organizations--Core Entities and Non-core Entities**

34. The principles above should be used to assess which organizations to include in GPFFRs. ~~To assist in making decisions about presentation,~~ Next, a distinction should ~~then~~ be made between core entities (entities to be consolidated) and non-core entities (entities to be disclosed). This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides core federal government goods and services on a non-market basis. Note, ~~H~~however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

Core entities

35. Entities listed in the budget, except for non-federal organizations receiving federal assistance (see par 19), are presumed to qualify as core entities while greater judgment will be needed to classify other organizations.

36. ~~Such~~ Core entities are financed primarily through taxes, fees, and other non-exchange revenues ~~as evidenced by inclusion in the budget~~. Significant risks

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

and rewards fall to the taxpayer for core entities. Core entities generally provide ~~core federal~~ goods and services on a non-market basis.[18]

37. Accountability for core entities rests with the Congress and/or the President. Their 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 approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

Non-core entities

38. ~~In order to fulfill public policy objectives, t~~The federal government may have relationships with organizations afforded~~that have~~ a greater degree of autonomy than core entities. ~~Despite this greater degree of autonomy, s~~Some non-core entities, ~~-~~may ~~still~~ exercise powers that are reserved to the federal government as sovereign. ~~However, o~~Other non-core entities 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 entities in receivership. To avoid obscuring information about these more autonomous organizations, ~~Such~~ such entities are to be disclosed rather than consolidated ~~included~~ in GPFFR's ~~for accountability purposes but are~~. These organizations are referred to as ~~considered~~ "non-core entities."

39. Non-core 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.

40. Non-core entities receive limited or no taxpayer support. Accountability rests with the Congress and/or the President, but they have less direct involvement in decision making than in core entities. Limited risks and rewards fall to the taxpayers. Non-core entities may provide the same or similar goods and services that core entities do, but are more likely to provide them on a market basis.[19]

41. Non-core entities may include but are not limited to: quasi governmental and/or financially independent entities, entities in receiverships and conservatorships, and entities owned or controlled through federal government intervention actions.

[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 goods or services.
[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.

In some cases, the relationship with the federal government is not expected to be permanent. The following non-core entity types are presented to assist in identifying entities that are non-core entities. 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 Entities***

42. Quasi Governmental and/or Financially Independent Entities are hybrid organizations that differ from core entities with regard to governance and/or financial arrangements.

43. 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

44. 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 to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government

45. While not all entities of a given type will meet the characteristics above, examples of the types of entities that may be quasi governmental and/or financially independent entities include certain Federally Funded Research and Development Centers, museums, performing arts organizations, universities, and venture capital funds. ~~are provided below~~Each individual entity should be assessed objectively since there are likely to be differences among the entities within these example types such that some ~~are~~ should be core entities and others ~~are~~ non-core entities. ~~Examples may include certain Federally Funded Research and Development Centers, museums, performing arts organizations, universities, and venture capital funds. The accompanying Illustrative Guide Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.~~

***Receiverships and Conservatorships***[20]

46. ~~There are c~~Certain federal entities may take control or ownership ~~whose mission provides for taking control or ownership~~ of failed financial institutions, such as banks, with no goal to maintain control or ownership. ~~To accomplish that mission, certain federally created entities may act as r~~Receivership or conservatorships may be established to liquidate failing financial institutions or ~~as conservators to~~ guide such institutions back to safe and sound conditions.[21] Entities controlled or owned through receiverships or conservatorships are likely to be non-core entities.~~Organizations controlled or owned by such federal entities would be non-core entities.~~

***Federal Government Intervention Actions Resulting in Control or Ownership***

47. The federal government may intervene in exceptional circumstances, such as an economic crisis or military occupation, due to its broad responsibility for the well being of the country. Although intervention actions are not expected to be permanent, they may not include a specific time limit.

[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 and the duration of the relationship is typically shorter.

[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."

48. 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.

49. Examples of intervention actions resulting in control or ownership include:

    a. Temporary control with expected benefits or risk of loss-- the federal government seizes control of an established organization but expects to relinquish or cede control.

    b. Temporary ownership--the federal government acquires an ownership interest of an organization but expects to end its interest as soon as practicable.

50. 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 non-core entities exist, organizations controlled or owned as a result of intervention actions would be non-core entities.

### Component Reporting Entities

51. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity[22] 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 core and non-core entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

52. A component reporting entity's GPFFR should include all organizations that would allow the Congress and the President to hold its management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also revealshowing the risks inherent in component reporting entity operations, and enhance accountability to the public. Each

[22] SFFAC 2, par. 38.

component reporting entity is accountable for all core and non-core entities administratively assigned to it.

53. Administrative assignments to component reporting entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating one or more of the following areas:[23]

    a. Scope of the Budget Process

    b. Accountability Established Within a Component Entity

    c. Misleading to Exclude and/or Misleading to Include

Scope of the Budget Process

54. Core and non-core entities 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 core entities listed within its section of the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account* unless they are non-federal organizations receiving federal financial assistance[24] and

    b. all non-core entities included within its Congressional Budget Justification.[25]

Accountability Established Within a Component Entity

55. Core and non-core entities for which a component reporting entity has been assigned accountability responsibilities should be included in its GPFFR.

[23] Component reporting entities should develop processes to ensure organizations in each of the areas identified in par. 53 a.- c. have been considered and assessed. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.
[24] See par. 19.
[25] The Congressional Budget Justification is the document submitted annually to Congress to justify an organizations budget request.

Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators[26] 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 monitors[28] ownership interests in organizations where there are ongoing responsibilities[29] such as:

(1) monitoring activities and/or reporting on outcomes,

(2) monitoring the value of the ownership interest,

(3) coordinating and/or conveying input on strategic plans,

(4) providing appropriated funds to the organization and receiving requests for funding in future years, or

(5) administering any federal grants or contracts awarded to the organization.

d. A controlled organization[30] was established by statute or action of the component reporting entity ~~or~~ to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include:

(1) approving bylaws including any amendments,

(2) being represented on the governing board (e.g., as an ex-officio member),

(3) appointing members of the governing board,

(4) coordinating and/or conveying input on strategic plans,

(5) monitoring organizational performance,

**Comment [owner9]:** Provides clarity to cover cases in which the controlled organization was not created by the component reporting entity itself (for example – PCAOB was created by public law rather than by the SEC) but has been administratively assigned to an entity with a related mission.

[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 United States Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the US 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 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 22-31.

(6) approving budgets, operating plans, or contracts with others,

(7) establishing and executing cooperative agreements with the organization,

(8) administering federal grants to or contracts with the organization, ~~or~~

(9) testifying before Congress regarding entity performance and objectives, or~~.~~

(10) significant financial transactions or balances that indicate ongoing managerial involvement.

**Comment [ML10]:** Staff was asked to address if there could be a situation where there are material transactions that don't meet accountability functions and responsibilities as described. Staff added this to capture material transactions. See June minutes page 29-30 and conclusion

*56.* If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:

a. Non-core entities should be included in the GPFFR of each component reporting entity assigned such responsibilities.

*b.* Core entities should~~can~~ be administratively assigned to only one component reporting entity.[31] The component reporting entity assigned the largest share of ~~such~~ responsibilities ~~such as those~~ described in paragraph 55 generally should ~~generally~~ include the core entity. ~~Where it is not clear which, if any, component reporting entity should include the core entity, the Office of Management and Budget should assist in determining which, if any, component reporting entity should include the core entity~~.

**Comment [owner11]:** Such responsibility not defined well. Agreed to reference previous par. See June Board minutes page 27

**Comment [owner12]:** Board agreed to drop language referring agencies to OMB. See June Board minutes page 28

57. If a non-core entity has not been administratively assigned to a core entity, the non-core entity should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the non-core entity or (b) with which its mission most closely aligns. The Office of Management and Budget should assist in determining which component reporting entity or entities should include the non-core entity.

Misleading to Exclude and / or Misleading to Include

[31] Note that the component reporting entity to which a core entity is administratively assigned may also be administratively assigned to a higher level component reporting entity.

*58.* There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 54-57, 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.[32]

59. There may be instances where administrative assignments of core entities based on the principles in paragraphs 54-57, would result in misleading presentation. For example, an organization may have been legally established within a larger entity while being authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to include the organization in the component reporting entity GPFFR, the organization may be excluded so long as it prepares its own GPFFR which is consolidated in a larger reporting entity (which could be the government-wide reporting entity or another component reporting entity~~,~~). ~~government-wide GPFFR.~~

**Comment [owner13]:** Addressing comments the entity could be part of another entity as well, not only the government-wide GPFFR. See June Minutes page 31

60. Determining whether it would be misleading to include a core entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples[33] 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:

(1) the budget request not being approved by component reporting entity management, or

(2) 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.

[32] Although such situations would be rare, this Statement provides for situations that may arise.

[33] The indicators listed in 60 a. – f. are examples and there may be other indicators not included on this list. Further, no ~~certain~~ 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.

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

Core entities

61. Core entities' financial statements should be consolidated to facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. A component reporting entity should provide consolidated financial statements for all core entities administratively assigned to it. Consolidation[34] aggregates the individual financial ~~statements~~ balances of entities comprising a reporting entity and results in presentation of information for a single economic entity representing core taxpayer supported activities, resources, and obligations where accountability rests with the Congress and/or the President.

62. Core entities as defined herein 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*.

63. SFFAS 34 recognizes that a limited number of federal 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. Consolidated

[34] 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.

reporting entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for core entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts, which disclosures should be measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

Non-core entities

64. Maintaining a distinction between the finances of core entities and non-core entities will more effectively meet federal financial reporting objectives. However, federal financial reporting objectives cannot be fully met without information regarding non-core entities.

65. For those organizations classified as non-core entities, this Statement provides for judgment by the preparer in determining the appropriate disclosures based on the factors and principles provided herein. Disclosures regarding non-core entities should be provided in accordance with Disclosures for Non-core Entities as detailed in par. 67 to 70 below after considering the factors listed in par. 66.

***Factors in Determining Non-Core Entity Disclosures***

66. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining non-core entity disclosures. Beyond materiality, the following factors[35] should be considered in making judgments about the extent of appropriate non-core entity disclosures:

    a. ***Relevance to reporting objectives*** - Significance of the non-core entity to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting,* with regard to the core entity. In particular, this would include the significance of the

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

information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.

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

c. ***Non-core entity views/perspective***- (Entities determined to be non-core in accordance with paragraphs 38 -- 41.) ~~may consider how they~~ Information about how the non-core entities account for or report on their relationship with the federal government. For example, whether the non-core entity 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 disclosure regarding the non-core entity 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.

***Disclosures for Non-core Entities***

67. In addition to the factors presented in par. 66 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether the disclosures for a non-core entity should be presented separately due to ~~its~~their significance or aggregated with the disclosure of other non-core

entities. If disclosures are aggregated, aggregation may be based on non-core entity type, class, investment type, or a particular event deemed significant to the reporting entity.

68. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive disclosure regarding the non-core entity and related balances or by incorporating references to relevant disclosures elsewhere in the GPFFR but relating to the non-core entity. For example, a reference may be made to a disclosure regarding investments in the non-core entity.

69. For each significant non-core entity and aggregation of non-core entities, information should be disclosed to meet the following objectives[36]:

a. ***Relationship:*** The nature of the federal government's relationship with the non-core entity or entities

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 non-core entity

~~70.To ensure the relationship objective for non-core entities exercising powers reserved to the federal government as sovereign is met and more detailed financial information is accessible, disclosures about such entities should include, at a minimum, information regarding:~~

~~a. Its mission~~
~~b.The relationship of its mission to federal policy objectives~~
~~c.Its organizational structure~~
~~d.The existence of its annual financial report and how it can be obtained~~

~~71.~~70. ~~e~~Examples of information that may meet the above objectives and provide the necessary understanding of the non-core entity's relationship, activities, and future exposures specific to the federal government are provided below.[37] In determining what information is needed to meet the objectives in paragraph 69,

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**Comment [owner14]:** Moved paragraph specific to sovereign powers below so it is clear par this applies to all non-core. See June Board minutes pages 22-23 and conclusion

[36] The objectives are not listed in any order of preference.
[37] 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 69 should be provided.

the factors in paragraph 66, 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 non-core entity,[38] including information about its mission and organization and any significant involvements with outside parties

b. The nature of the relationship between the federal government and the non-core entity including relevant information regarding:

(1) How any control or influence over the non-core entity is exercised

(2) Key terms of contractual agreements, statutes, or other legal authorities

(3) 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 operating or disposing of the non-core 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 non-core entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)

e. A discussion of key financial indicators and changes in key financial indicators

f. Information regarding the ~~existence~~ availability of the non-core entity's annual financial report and how it can be obtained

g. In the event that contractual agreements, statues, or other legal authorities obligate the core entity to provide financial support to the non-core entity in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial

[38] For simplicity, information is described in relation to a single non-core entity. Nonetheless, the information may be presented for an aggregation of similar non-core entities.

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 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 non-core 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 potential gain and risk of loss to the reporting entity, resulting from the non-core entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable.

71. If the non-core entity exercises powers reserved to the federal government as sovereign, disclosures[39] about such entities should include, at a minimum, information regarding:

a. Its mission
b. The relationship of its mission to federal policy objectives
c. Its organizational structure
d. Nature and magnitude of relevant activity during the period and balances at the end of the period
e. A description of financial and non-financial risks and potential benefits
f. If possible, the amount of the federal government's exposure to gains and losses from the past or future operations
g. The availability of its annual financial report and how it can be obtained

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**Comment [owner15]:** Although there are no additional requirements, members indicated they would like to repeat the requirements to disclose relevant activity and future exposures from 70b and 70c for clarity purposes. See June Minutes pages 22-23 and conclusion

72. Non-core entity information disclosed in the GPFFR should be based on accrual basis standards provided in generally accepted accounting principles for its

[39] As discussed in par. 68 disclosures should be integrated so that concise, meaningful and transparent information is provided.

specific type of entity.[40] This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

73. When information is derived from the non-core entity'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 non-core entity'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 non-core entity's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.

74. Significant changes in information occurring from the end of the non-core entity'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*.

### Related Party

75. In addition, the federal government may be able to exercise influence over certain organizations that were not included in the GPFFR but the relationship should also be disclosed. NOTE: The issue of related parties is addressed in an issue paper at Tab C.

76.

## Effect on Existing Concepts-- Proposed Amendments to SFFAC 2, *Entity and Display*

[40] Core government 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*.

77. The purpose of this section of the Statement is to propose amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display,* as described in the following paragraphs.

78. It should be noted that minimal conforming changes have been proposed to SFFAC 2. Paragraphs 54—77 and 79 – 112 address concepts outside the scope of this Statement and are not amended.

79. 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 ought to 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).

80. Paragraphs 3 - 5 are rescinded because the preamble to concepts statements adopted with the issuance of SFFAC 5 and applicable to all concepts statements addresses the topics covered.

81. 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 accountability is a fundamental goal of

financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

82. Paragraphs 7- 8 are rescinded because this is covered by the new preamble to statements of federal financial accounting concepts.

83. Paragraph 10, first bulleted item is amended by replacing it with the following two bulleted items addressing the reasons for understanding what the reporting entity entails:

- ensure information at each reporting level includes information about all relevant organizations ;

- ensure that organizations are not included in the reporting entity if the federal government does not own them or have the ability to control them or if they are not included in the budget.

84. 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--although some would say the entire country is the ultimate 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 government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

85. Paragraphs 39 -50 are rescinded because they go beyond conceptual guidance and appear to establish standards within a concepts statement. Deleting these paragraphs will avoid any confusion regarding the role of the inclusion principles presented in the draft standards without creating a void in concepts.

86. 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.”

87. 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.

88. 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.

89. A new sub-heading "Need to Distinguish between Core and Non-core Entities" is inserted at paragraph 53 a.

90. Insert Paragraphs 53a – 53 e. under the sub-heading: "Need to Distinguish between Core and Non-core Entities" - The proposed language provides a high level explanation of core and non-core entities. These are new terms introduced in the proposed Statement and very 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 rely both on core entities (for example, core entities include organizations established within the three branches of government) and on organizations that are distinct from core entities to fulfill public policy objectives. These distinct entities are referred to collectively as non-core entities.

53b. Non-core entities 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 non-core entities' 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 core and non-core entities 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 core entities and non-core entities. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for core and non-core entities are mostly independent. While core entities are financed by taxpayers and governed directly by elected officials, non-core entities often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all entities likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for core entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of non-core entities.

53d. Maintaining a distinction between core entities and non-core entities may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding non-core entities. For example, disclosure by the government, including component reporting entities, of information regarding non-core entities may provide needed information about non-core entities. Nonetheless, disclosures are not a substitute for core entities recognizing the financial effects of transactions with non-core entities.

53e. Consolidating only core government entities' financial statements 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 entities comprising a reporting entity and results in presentation of information for a single economic entity representing core taxpayer supported activities, resources, and obligations. Core government 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 core entity financial reports.

91. 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. This issue is to be addressed in standards.

### Effective Date

~~77.~~92. These standards are effective for periods beginning after September 30, 2015~~year~~. 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. 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 (GPFFR) is necessary to ensure their completeness.

A2. The GPFFR 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 and its involvements. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included, questions have continued in this area that resulted in the need for standards.

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### 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 their consideration during the development of these proposed standards. Their assistance was essential and their views carefully considered by members during deliberations. (See Appendix X 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 ~~the~~ 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.[41]

A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental 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."

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

[41] SFFAC 1, paragraph 8.

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.[42]

~~Some differences in purposes and governance structures require differences in presentation of financial information. As the federal government must report on many different types of relationships with varied purposes due to complex governance structures and finances, there must be differences in presentation of financial information for different organizations based on the nature of the relationship with the federal government.~~

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~~A8.~~A9. SFFAC 1 is very clear that the objectives were designed to help ensure the accountability of the federal government and to better inform decisions influenced by financial information about the government. There is a focus on the needs of current and potential users of federal financial information. In each of the four federal financial reporting objectives articulated in SFFAC 1 there are several references to user information needs and accountability. Clearly, the notion of accountability is important when considering the boundaries of GPFFR.

### Identifying and Classifying Organizations

~~A9.~~A10. This Statement provides that reporting entities should first ~~decisions about reporting boundaries be taken in two several steps – first, determine~~identify what organizations are to be included[43] in the reports. Next the reporting entity should classify the ~~distinguish the included~~ included organizations among core and non-core entities. ~~and lastly and second, identify the means to present relevant information about organizations.~~

~~A10.~~A11. Three principles for including organizations in the government-wide GPFFR are established: *In the Budget*, *Majority Ownership Interest*, and *Control with Expected Benefits or Risk of Loss*. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it. Next, for those organizations to be included, a distinction is made between core entities and non-core entities. The distinction between core and non-core entities determines how financial information is presented in the

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

[43] 'Included' means an organization's information is either consolidated or disclosed.

GPFFR. Core entity financial information is to be consolidated and non-core entity financial information is to be disclosed.

~~A11.~~A12. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which organizations should be included[44] 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.

~~A12.~~A13. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – ~~we~~are accountable. The principles for inclusion proposed herein establish accountability for organizations (1) funded through the budgetary process, (2) where a majority ownership interest is held, or (3) controlled with an expectation of benefits or risk of loss. Each of these principles for inclusion is discussed below.

### Principles for Inclusion in the Government-wide GPFFR

In the Budget

~~A13.~~A14. Identification of an organization in the President's Budget is the clearest evidence that an entity 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 continue 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 is by their participation in the budget process as evidenced by the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account*.

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

~~A14.~~A15. 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 included in the government-wide report.[45]

~~A15.~~A16. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the *Federal Programs by Agency and Account* may not identify federal credit reform financing accounts, but those accounts should be included in GPFFR for the organization. In addition, other GAAP principles would apply, such as SFFAS 2, *Accounting for Direct Loans and Loan Guarantees,* and SFFAS 5, *Accounting for Liabilities of the Federal Government,* and help identify the elements and required disclosures for each organization.

***Organizations receiving federal financial assistance***

~~A16.~~A17. The *Federal Programs by Agency and Account* schedule also sometimes names specific recipients of federal financial assistance. SFFAC 2~~, *Entity and Display,*~~ acknowledge~~d~~s 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.

~~A17.~~A18. 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."

[45] 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.

~~A18.~~A19. The proposed language ensures organizations that receive assistance as defined by the Single Audit Act Amendments of 1996[46] but listed under an appropriation in the *Federal Programs by Agency and Account* aren't automatically included in the GPFFR. Often grants are received through programs and recipient organizations are not necessarily listed in the budget, but an organization may be listed in some cases. 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 Expected Benefits or Risk of Loss principles before being excluded from the government-wide GPFFR.

~~A19.~~A20. 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 perceptions. 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***

~~A20.~~A21. 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 how such organizations should be presented would be based on whether the organization was a core or non-core entity, as discussed later in the Statement. Therefore, the language in the principle (*in the budget*) ~~is silent regarding~~does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources.

[46] '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.

***Need for Additional Principles***

~~A21.~~A22. 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 does not necessarily mean that accountability goals would 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), 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 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

~~A22.~~A23. 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 the 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% of the voting rights or the net residual assets of an organization.

~~A23.~~A24. The Board noted that some may wonder~~question~~ how to account for minority ownership interests (less than 50%)~~ should be accounted for~~. The Board agreed ~~attempting to~~ addressing minority interests through the project is likely to~~may~~ 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% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

Control with Expected Benefits or Risk of Loss

~~A24.~~A25. When the federal government controls an organization with the expectation of benefit or risk of loss, 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 benefit or risk of loss aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

~~A25.~~A26. For example, the Statement provides for situations where the expectation of benefit or risk of loss 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.

~~A26.~~A27. 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.

~~A27.~~A28. 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 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.

~~A28.~~A29. 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 entity to deliver goods and services.

Misleading to Exclude Principle

~~A29.~~A30. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the principle would help ensure that the proposed Statement

could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

~~A30.~~ The Board also believes the principle 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~~something~~ should be included that was not otherwise incorporated as a result of the principles.

A31. ~~The Board also believes this principle would be used in situations agreed to by the preparer and auditor; j~~Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate ~~believes~~ these types of situations ~~would be difficult to anticipate~~ and develop~~ing~~ criteria ~~challenging~~.

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**Organizations--Core Entities and Non-core Entities**

A32. Differences in purposes and governance structures require differences in presentation of financial information. This Statement provides that ~~decisions about reporting boundaries be taken in several steps – first,~~the reporting entity should first determine what organizations are to be included in the reports. Next the reporting entity should classify ~~distinguish~~ the included organizations among core (consolidated) and non-core entities (disclosed). ~~and lastly, identify the means to present relevant information about organizations.~~ ~~To facilitate this, decisions about federal financial reports for an organization are taken in two steps – first, determining what organizations are to be included in the reports and second, identifying the appropriate means to present relevant information about the organizations.~~

A33. Different means of presenting relevant information are provided for core and non-core entities. The distinction between core entities and non-core entities is based on the degree to which the following characteristics are met: the entity is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides ~~core federal government~~ goods and services on a non-market basis.

Core entities

A34. Core entities generally provide ~~federal~~ 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.

A35. Core entities are financed through taxes, fees and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the taxpayer for core entities. Inclusion in the budget is the clearest evidence ~~that~~ an entity is relying on the taxpayer and that elected officials are key decision makers.

A36. 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 that are not receiving federal financial assistance are presumed to qualify as core entities. For such entities, allocation of resources to its activities is determined through federal legislation – making the entity itself financially accountable to the Congress and/or the President. Accountability to citizens for core entities ultimately rests with the Congress and/or the President, and their approved appointed organizational leaders.

~~A38.~~A37. The assessment of whether an entity meets the attributes for a core 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. For example, the post office may compete against other organizations; therefore it may be viewed as providing goods and services on a market basis. However, if it primarily meets the remaining characteristics then it is a core entity.

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Non-core entities

~~A39.~~A38. On the opposite end of the spectrum and with varying degrees in between are non-core entities. The use of professional judgment will be required when assessing the non-core entities as there is a much broader spectrum of entities having varying degrees of relationships with the federal government.

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~~A40.~~A39. Non-core entities receive limited or no taxpayer support. Non-core entities, in contrast to core entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. This is an effort to shield the taxpayer from risk.

A40. In addition, another contrast with core entities is that with non-core entities, accountability ultimately rests with the Congress and/or the President but there is much less direct involvement in decision making. Greater accountability for decision making may rest with ~~a~~an independent governing board or there may be situations where non-core entities may have a separate legal identity.

A41. It is important to recognize the continuum that exists among non-core entities. For example, despite a greater degree of autonomy, some non-core entities may still exercise powers that are reserved to the federal government as sovereign. While other non-core entities 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.

~~A40.~~A42. The Statement provides categories of non-core entities primarily as a way to help identify non-core entities. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about non-core entities. The categories of non-core entities include quasi governmental and/or financially independent entities, receiverships and conservatorships, and federal government intervention actions. Since some non-core entities may exercise powers reserved to the federal government as sovereign, the Board requires more disclosures in those cases.

***Quasi Governmental and/or Financially Independent Entities***

~~A41.~~A43. The Statement describes quasi governmental and/or financially independent entities as those non-core entities where governance and/or financial differences lead to greater independence. The Statement provides both governance and financial characteristics that would be found in this type of non-core entity.

~~A42.~~A44. Quasi governmental and/or financially independent entities may include certain Federally Funded Research and Development Centers (FFRDC), 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 core entities rather than non-core. The accompanying Illustrative Guide offers examples that may be useful in application.

***Receiverships and Conservatorships***

~~A43.~~A45. The Statement describes receiverships and conservatorships as non-core entities. This includes those failed financial institutions and banks the federal government ~~may~~ takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned entities would be non-core entities.

***Federal Government Intervention Actions***

~~A44.~~A46. The Statement describes federal government intervention actions as non-core entity 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. Par. 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 par. 53-54 as "a broad responsibility that involves multiple goals."

A47. With these broad responsibilities, the federal government may be required to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets or military occupation of another country.[47] These types of federal government interventions are considered rare.[48] Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.[49]

[47] 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 and Wikipedia http://en.wikipedia.org.wiki/Occupation_of_Japan )

[48] 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)

[49] CRS Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

As a sovereign entity, the federal government does not act to maximize profits. In doing so, the federal government may intervene and act in capacities to protect taxpayers which may ultimately lead to taking control of organizations or acquiring some form of ownership.

~~A45.~~

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~~A46.~~A48. Currently SFFAC 2 provides an exception for situations where the indicative criteria are met temporarily. Specifically, par. 45 of SFFAC 2 states "The entity 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' implied a time limit.

~~A47.~~A49. 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 non-core entities rather than relying on 'temporary' or 'fleeting' to avoid the implication that a time limit could be established.

~~A48. Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.[50] As a sovereign entity, the federal government does not act to maximize profits. However, there may be instances when the federal government may act in these capacities for the general well-being of the nation. Challenges may force the federal government to take extraordinary measures, such as actions to provide stability to financial markets or to revive the financial system. In doing so, the federal government may intervene and act in capacities to protect taxpayers which may ultimately lead to taking control of organizations or acquiring some form of ownership.~~

**Component Reporting Entities**

~~[50] CRS Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*~~

A50. 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 entities in the government-wide entity GPFFR should be consistent with the reasons at the component reporting entity level. Further, classification as core or non-core entities 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.

A51. Nonetheless~~However~~, 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 core and non-core entities for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

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~~A49.~~A52. The Board believes that component reporting entities should identify core and non-core entities ~~based on organizations that are~~ 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 GPFFR's that include all organizations for which the component reporting entity management (appointed officials) are expected to be accountable.

~~A50.~~A53. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, ~~laws,~~ regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all core and non-core entities for which they are accountable so that both the component reporting entity and government-wide GPFFR would be complete.

A54. Administrative assignments can be identified by evaluating one or more of the following areas:

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a. Scope of the Budget Process

b. Accountability Established Within a Component Entity

c. Misleading to Exclude and/or Misleading to Include

A55. Component reporting entities should develop processes to ensure organizations in each of these areas are identified, considered and assessed. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency

~~A54.~~A56. Although there may be a one-time review to ensure completeness and consistency, the Board believe~~d~~s this method is reasonable 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.

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## ~~Reporting Entity~~ GPFFR Consolidation and Disclosure

~~A55.~~A57. As noted above, decisions about the government-wide GPFFR ~~are taken in two steps – first,~~ require determining what organizations are to be included in the reports and ~~second,~~ 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 core or non-core entities.

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~~A56.~~A58. The **High Level Flowchart** at Appendix B to this ED is a useful tool in applying the principles established as it steps through this process. It is helpful in the assessment and applying the standards in order. It~~,~~ includ~~ing~~es paragraph references to the ED and major decision points.

Core entities

~~A57.~~A59. The Statement provides that core entities 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

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provides for the consolidation of core entities so taxpayers and citizens may assess the financial position and the cost of operations of the federal government. Consolidation of the taxpayer supported activities, resources, and obligations where accountability rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

*Consolidation of FASB-based and FASAB-based Information*

~~A58.~~A60. 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 entities of the U.S. Department of the Treasury, and some ~~smaller~~ other entities 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 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 entities and in the consolidated government-wide entity.

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~~A59.~~A61. 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.[51] (SFFAC 2, Entity and Display, par. 78 (excerpt from section on "Financial Reporting For An Organizational Entity"))

~~A60.~~A62. 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. Given the decisions made in SFFAS 34, members do not believe requiring a conversion of FASB-based information to FASAB-based information for consolidated financial reports of larger entities is justifiable.

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~~A61.~~A63. 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 entities; 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 entities in compliance with SFFAS 34 be consolidated without adjustment.

~~A62.~~A64. 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.

Non-core entities

~~A63.~~A65. The Board believes consolidation of non-core entities 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. For example, for non-core entities the Board believes consolidation 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-

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[51] 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.

core entity might be commingled with federal assets and liabilities not fully guaranteed by the federal government might be added to federal liabilities.

~~A64.~~A66. 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.[52]

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~~A65.~~A67. Flexibility in disclosures for non-core entities is provided because the range of non-core entities is broad and ~~may require~~ different disclosures may be required 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 core entity's financial statements.

~~A66.~~A68. One approach is to consider how to ensure that basic financial statements measure and communicate the risks and rewards assumed by the citizens.[53] Citizens have a clear interest in the risks and rewards assumed, but it is less clear that full consolidation provides the most relevant, understandable, or consistent measures of risks and rewards.

~~A67.~~A69. Par. 161 of SFFAC 1 discusses relevance as "…To be relevant, a logical relationship must exist between the information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event. Relevance depends on the types of financial information needed by the various users to make decisions and to assess accountability." SFFAC 1 also provides that the concept of consistency in financial reporting extends to the determination of the financial reporting entity.[54]

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[52] SFFAC 1, par. 156

[53] SFFAC 1, par. 99-102 describes the users need information to assess the effect of the government's activities on its financial condition and that of the nation, which includes information on the federal government's exposures and risks.

[54] SFFAC 1, par. 163

*Factors in Determining Non-Core Entity Disclosures*

~~A68.~~A70. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors or guidance 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 non-core entity presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of appropriate non-core entity disclosures to be provided.

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~~A69.~~A71. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. Therefore, the assessment of the appropriate disclosures should be made after considering all the factors.

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*Disclosures for Non-Core Entities*

~~A70.~~A72. The Board recognizes that although the Statement provides flexibility with non-core entity disclosures, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives. 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 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.

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~~A71.~~A73. The Board believes non-core entity disclosures in the government-wide GPFFR should be based on accrual basis standards specific to the type of entity while minimizing additional costs on the non-core entity. Therefore, there will be instances where non-core entities disclosures are based on different reporting periods. The Board agreed that if non-core entities have a different reporting period than the government-wide GPFFR, disclosure of information from a reporting period ending within the government-wide 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.

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~~A72.~~A74. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the financial position and other information occurring from the audited financial statements to the reporting entity's fiscal year end. The Board notes this would only be necessary if a non-core entity'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.

~~A73.~~A75. The Board ~~was~~is especially concerned with the interpretation by the users and preparers regarding the proposed ED requirements for non-core entity and ultimately how they would affect the display and disclosures. The Board believes~~d~~ this would be an important consideration during deliberations ~~of~~on the ED 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.

~~A74.~~A76. 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 entities. 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 non-core entity disclosure section. 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 modified the draft disclosure requirements to emphasize integration of disclosures.

## Federal Reserve System and Other Entities Identified in SFFAC 2

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~~A75.~~A77. SFFAC 2 identified certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises and Bailout Entities) that could be included in the government-wide reporting entity based on the established concepts but that should not be included.[55] This Statement establishes principles to ensure users of GPFFR are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The new principles

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[55] SFFAC 2, *Entity and Display,* par. 47-50.

can be applied to the entities previously excluded and conclusions reached to include the entities—either as core or non-core entities—or to continue to exclude the entities. 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.

~~A75.~~

## ~~A75.~~Proposed Amendments to SFFAC 2

~~A75.~~

A78. The purpose of this section of the Statement is to propose amendments to Statement of Federal Financial Accounting Concepts (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 and are a result of concepts that go beyond conceptual guidance and appear to establish standards within a concepts statement. Deleting this will avoid any confusion regarding the role of the inclusion principles presented in the draft standards without creating a void in concepts.

A79. Minimal conforming changes have been proposed to SFFAC 2. Paragraphs 54—77 and 79 – 112 address concepts outside the scope of this Statement and are not amended.

A80. In addition, paragraphs 11-37 remain as is with no proposed changes 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 a rewrite of the section or individual paragraphs.

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## Appendix B: ~~Illustrations~~ -FLOWCHART

# Appendix C : Illustrations

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## Appendix ~~C~~D: Abbreviations

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|---|---|
| CFR | Consolidated Financial Report |
| DOL | U.S. Department of Labor |
| ED | Exposure Draft |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| GAAP | Generally Accepted Accounting Principles |
| GPFFR | General Purpose Federal Financial Reports |
| OAI | Other Accompanying Information |
| 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 |

## Appendix ~~D~~E: ~~Glossary~~Glossary

**Reporting Entity** Reporting entities are entities 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).

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Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.[56] The criteria focus on whether an entity should issue GPFFRs and are that a reporting 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.

**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.

**Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.[57] Examples of component reporting entities include entities 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 of a larger department that prepares a standalone GPFFR.

[56] SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

[57] The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

**Control with expected benefits or risk of loss** Control with expected benefits or risk of loss is 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[58] or be obligated to provide financial support or assume financial obligations.

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[58] 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.

# Appendix F- Task Force Members

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**FASAB Board Members**

Tom L. Allen, Chair

Robert F. Dacey

Norman Dong

Michael H. Granof

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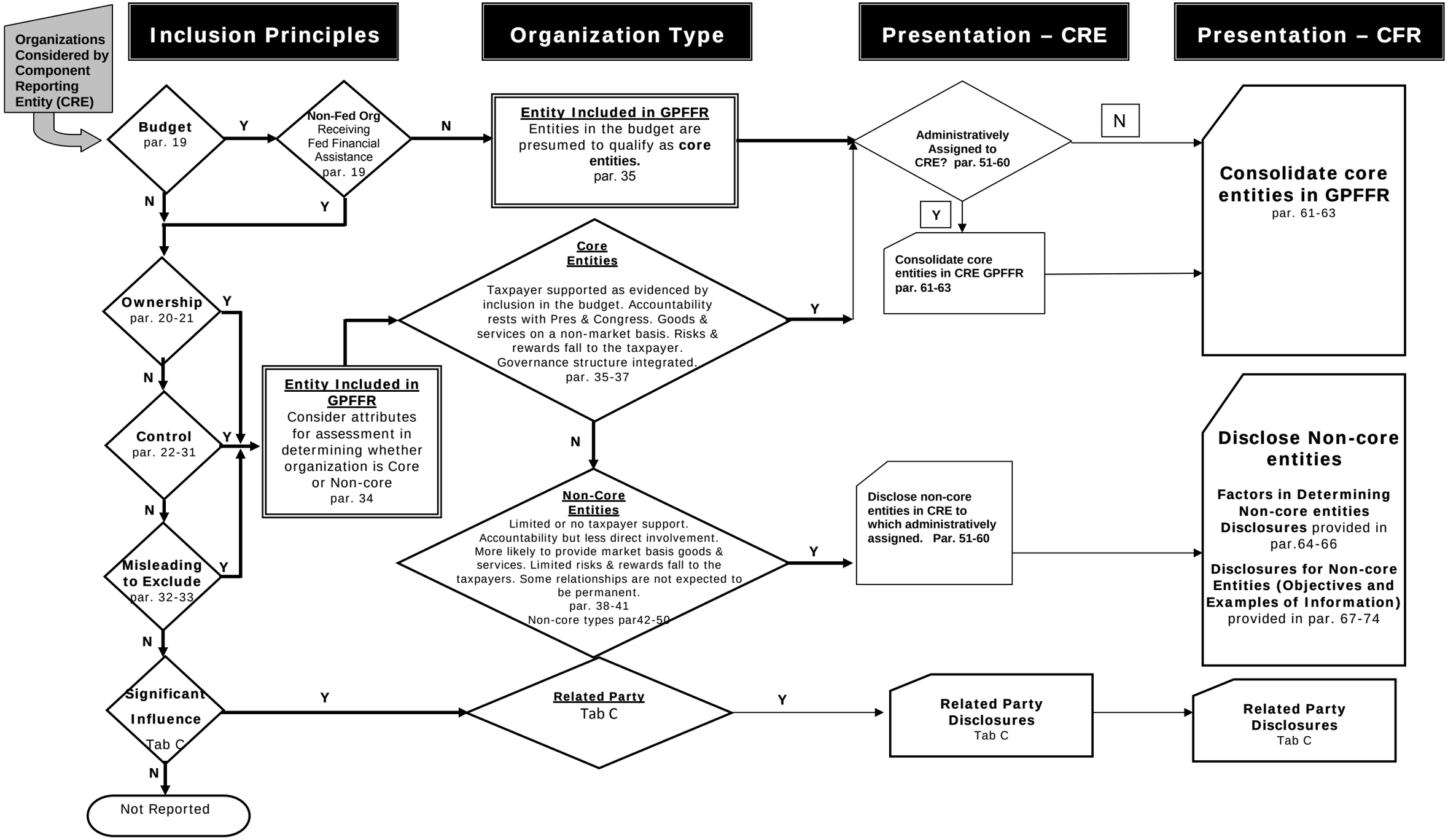
# FLOW CHART (Appendix B)



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# Preamble

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

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

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

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

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

# ABC Department

## (In the Budget—Core Entity)

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

Tentative Conclusions

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

Classification as Core or Non-core

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

Administrative Assignments

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

# Epsilon Corporation

(In the Budget – Core Entity)

Assumed Facts and Circumstances

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon's activities. Epsilon is ~~led~~ 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 Budget and receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the entity may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

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

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

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

Tentative Conclusions

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

Classification as Core or Non-core

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

Administrative Assignments

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

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

# Sigma Association

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

Assumed Facts and Circumstances

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

Sigma is ~~led~~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 the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

Classification as Core or Non-core

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

Evidence suggesting that it is non-core includes:

1. Taxpayer support is not provided for ongoing operations.

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. Seven-year terms for directors and their not being 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 taxpayer 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 core includes:

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

Administrative Assignment

Because each non-core entity must be reported by at least one core 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 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 Budget under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

Tentative Conclusions

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

The initial analysis is summarized below:

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

- 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 – Core Entity)

Assumed Facts and Circumstances

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

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

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

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

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

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

ERI must provide annually an audited financial report to 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 Core or Non-core

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, ERI should be included as a core 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 core entity.

Evidence suggesting that ERI is a core entity includes:

1. It is primarily financed by taxpayers.
2. Taxpayers have 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 non-core entity 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, which is a core entity, in its GPFFR.

# Mediation Corporation

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

Assumed Facts and Circumstances

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

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

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

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill ~~vacancies~~ 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 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% of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U. S. Government.

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

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

Tentative Conclusions

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide 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 entity'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% 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 Core or Non-core

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

<u>Evidence suggesting that Mediation is a core entity includes:</u>

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

<u>Evidence suggesting that Mediation is a non-core entity includes:</u>

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% limitation).
3. Taxpayers have 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 included in its GPFFR.

# Bicycle America, Inc. (Scenario A)

(Not Included)

Assumed Facts and Circumstances

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

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

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

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but wa~~i~~s 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.

# Bicycle America, Inc. (Scenario B)

(Owned – Non-core entity (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% 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 entity should be included in the government-wide GPFFR.

Classification as Core or Non-core

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

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 entities should also disclose information in their GPFFRs.

# Chatham Laboratory

(Control Based on Persuasive Indicator – Core 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 President's Budget. 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 ~~the federal government~~ contracting~~s~~ 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 Core or Non-core

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Chatham should be included as a core 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 core entity.

Evidence suggesting that Chatham is a core entity includes:

1. It is primarily financed by taxpayers.
2. Taxpayers have 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 ~~its~~ ABC's performance report and Congressional Budget Justification. This indicates that decision making regarding the budget is exercised by~~leads to~~ elected officials through politically appointed officials and the budget process.

Evidence suggesting that Chatham is a non-core entity 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 core 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, which is a core entity, in its GPFFR.

# Gotham Laboratory

(Not included – Economic Dependency Insufficient to Show Control)

Assumed Facts and Circumstances

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

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

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

Tentative Conclusions

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

# Andromeda Prime Power Systems

(Not Included – GSE ~~(potential~~ related party~~)~~)

Assumed Facts and Circumstances

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

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

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

~~Also, d~~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 entities and receives no ongoing federal support through the Budget.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be included in the government-wide GPFFR as a core or non-core entity. APPS is not listed in the Budget and the federal government does not have a majority ownership interest in the company.

Further, ~~M~~management does a thorough assessment of control indicators and determine~~d~~s ~~that~~ the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

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

~~[This example will be developed further when draft related party standards are available.]~~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 created by the federal government wherein there is an implied guarantee.

# U.S. Museum (Scenario A)

(In the Budget - Core)

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 130 voting members and 20 nonvoting members. Of the voting members, 110 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 20 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

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

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

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

Assumed Facts and Circumstances

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

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

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

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

Tentative Conclusions

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide 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 Core or Non-core

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

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

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

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

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

1. The Museum is a separate legal entity – 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 taxpayer support 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 taxpayer.

Non-core entities should be disclosed 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 should include the Museum as a non-core entity 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 - Core 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 fire fighting resources in response to wildfires in remote areas. The enabling legislation ~~specifically~~ allows Agency 123 to enter into a wide range of financial agreements with private-sector participants to provide housing and equipment storage for the fire fighters.

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, ~~via the agency's residual ownership interest,~~ 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. ~~If the persuasive control indicator is not met, management should consider~~ ~~o~~Other indicators ~~that~~ 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 Core or Non-core

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, FHLP should be included as a core 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 core entity.

Evidence suggesting that FHLP is core includes the following:

1. FHLP provides housing to firefighters as its primary function on a non-market basis.
2. It is financed by taxpayer funds 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 FHLB will be approved through the usual budgetary process so that FHLB funding will be included in the budget approved by the Congress and the President.

Evidence suggesting that FHLP is non-core 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 core entity, FHLP 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 FHLB because it is assigned administrative responsibility for FHLB based on its inclusion of FHLB funding in its budget request and its coordination and monitoring of FHLB's plans and performance.

# The Blue Mountain Observatory

(Controlled – Non-core Entity (FFRDC))

Assumed Facts and Circumstances

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

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

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

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

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

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

1. 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 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 Core or Non-core

Evidence suggesting that BMO is core 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 taxpayer funds to support BMO is ultimately decided by the Congress and the President.

Evidence suggesting that BMO is non-core 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 entities 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 entities.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO is a non-core entity. As a non-core entity, BMO should be disclosed 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.

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## Table 1: Summary Application of Proposed Standard

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

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

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

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

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## Proposed Standards

### Scope and Applicability

5. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFR) 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*.

6. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable entities preparing and issuing GPFFRs to determine:

   a. whether SFFAS 34 is applicable to an organization,

   b. what organizations ~~should be included~~to report in the GPFFR of entities applying SFFAS 34,

   c. the manner in which information should be presented for organizations ~~included~~reported in the GPFFR, and

   d. what, disclosures, if any, are needed regarding related parties.

### Definitions

Definitions in paragraphs 7 through 10 are presented first because of their importance in understanding the Statement. Other terms shown in boldface type the first time they appear in this document are presented in the Glossary at Appendix D. Respondents to this proposal may want to examine all definitions before reviewing the Statement and Basis for Conclusions.

7. **Reporting Entity** Reporting entities are entities 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).

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Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.[1] The criteria focus on whether an entity should issue GPFFRs and are that a reporting 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.

8. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR ~~includes~~reports all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.

9. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.[2] Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components ~~included~~reported in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau ~~of~~that is within a larger department ~~that~~but prepares ~~a~~its own standalone GPFFR.

Comment [HS1]: To remove uncertainty as to whom prepares the standalone statement

10. **Control with ~~expected~~possible benefits or risk of loss** Control with ~~expected~~possible benefits or risk of loss is 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[3] or be obligated to provide financial support or assume financial obligations.

Comment [HS2]: y definition, the Federal government does not expect benefits from an intervention. It hopes that it doesn't "lose its shirt." On the other hand, there is the possibility of benefits and risk of loss. I have made this change throughout.

11. **Sovereign Powers** Sovereign powers are the powers enumerated in the Constitution, which includes the power to lay and collect taxes, duties, imposts, and excises; pay the debts and provide for the common defense and general welfare of the United States; borrow money on the credit of the United States; regulate commerce with foreign nations and among the several states; establish

[1] SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

[2] The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

[3] 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.

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uniform rules of naturalization and bankruptcy; coin money and regulate the value thereof; fix the standards of weights and measures; provide for the punishment of counterfeiting; establish post offices and post roads; secure for authors and inventors the exclusive rights to their writings and discoveries; constitute tribunals; define and punish piracies and felonies committed on the high seas; declare war; raise and support armed forces; make treaties.

**Organizational Approach to Defining Boundaries**

~~11.~~12. ~~The~~ SFFAC 2 described how 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 other~~composed of many different components. It also described how, for accounting and reporting purposes, it may be viewed from at least three different perspectives~~,[4] such as~~: an organization perspective, a budget perspective, and a program perspective~~, an organizational approach was established in~~. SFFAC 2[5] ~~as~~concluded that the most appropriate perspective for understanding the composition and reporting the financial position of the federal government~~. SFFAC 2 established that GPFFRs should include the aggregation of 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 government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.~~ would be the organization perspective. .

Comment [HS3]: This is stated elsewhere in the Standard and need not be stated here.

~~12.~~13. ~~Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that~~Furthermore, the component organizations serve varied purposes and have complex governance structures and finances. ~~For example, certain distinctions must be maintained for financial reports to meet~~In some instances, the reporting objectives established in SFFAC 1~~. In such cases, disclosures about~~ can best be met by consolidating the ~~organization rather than~~ financial information ~~consolidated across all~~of several organizations~~ may better meet these objectives.~~. In other instances, a more useful approach would be to separately disclose the information for some of the organizations.

Comment [HS4]: I wanted to get more to the point.

~~13.~~14. This Statement first establishes the principles for ~~including~~determining which organizations to report in the government-wide GPFFR (see Principles for ~~Inclusion~~Determining which Organizations to Report in the Government-wide GPFFR) It then distinguishes between ~~core entities (consolidated)~~Entities to be Consolidated and ~~non-core entities (disclosed)~~Entities to be Disclosed (see

[4] ~~SFFAC 2, par. 13-28 discusses the budget and program perspectives of the federal government, as well as the intertwining of the perspectives.~~

[5] SFFAC 2, par. 31-38.

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section ~~'Organizations - Core Entities and Non-core Entities' which describes these types of entities).~~ (see Reporting on Organizations—Consolidation or Disclosure).

~~14.~~15. This Statement also establishes that component reporting entities must identify and ~~include~~report in their GPFFRs all ~~core~~Entities to be Consolidated and ~~non-core entities~~Entities to be Disclosed for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

~~15.~~16. Lastly, the Statement addresses presentation of financial information based on those decisions (see GPFFR- Consolidation and Disclosure).

~~16.~~17. ADD RELATED PARTY (Tab C)

**Principles for ~~Inclusion~~Determining which Organizations to Report in the Government-wide GPFFR**

~~17.~~18. ~~To determine~~This Statement provides three principles for determining which organizations should be ~~included~~[6]reported in the government-wide GPFFR~~, this Statement provides three principles for inclusion and~~. It also requires ~~inclusion~~reporting of organizations if it would be misleading to exclude them (see par. 34~~33~~).

~~18.~~19. An organization meeting any one of the three principles below is ~~included~~reported in the government-wide GPFFR:

a. In the Budget

b. Majority Ownership Interest

c. Control with ~~Expected~~Possible Benefits or Risk of Loss

In the Budget

~~19.~~20. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule titled *Federal Programs by Agency and Account* should be ~~included~~reported in the government-wide GPFFR unless it is a non-federal organization receiving

[6] ~~'Included' means an organization's information is either consolidated or disclosed.~~

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federal financial assistance.[7] Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with ~~Expected~~Possible Benefits or Risk of Loss*) to determine whether they should be ~~included~~reported in the government-wide GPFFR.

Majority Ownership Interest

~~20.~~21. The federal government (directly or through its components) may have an ownership interest[8] 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.

~~21.~~22. Majority ownership interest exists with over 50% of the voting rights or net residual assets[9] of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization it should be ~~included~~reported in the government-wide GPFFR.[10]

Control with ~~Expected~~Possible Benefits or Risk of Loss

~~22.~~23. An organization that is controlled by the federal government with the ~~expectation~~possibility of benefits or risk of loss should be ~~included~~reported in the government-wide GPFFR. For these purposes, control with the ~~expectation~~possibility of benefits or risk of loss is defined as follows:

**Control with ~~expected~~possible benefits or risk of loss** is 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[11] benefits or be obligated to provide financial support or assume financial obligations. Both the power and either the ~~expected~~possible benefit or risk of

[7] 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.

[8] 'Ownership interest' is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Glossary FASAB Pronouncements as Amended as of June 30, 2011.*

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

[10] 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.

[11] 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.

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loss aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with ~~expected~~possible benefits or risk of loss is referred to as "control."

~~23.~~24. 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.

~~24.~~25. 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.

~~25.~~26. 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 it does not have control—such as another sovereign government.

***Indicators of Control***

~~26.~~27. 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.

~~27.~~28. 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,[12] which may include authorizing the organization to exercise

[12] Congressionally chartered nonprofit organizations identified under 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 29~~28~~ or another indicator in this paragraph.

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sovereign power of the federal government and requiring the organization to carry out federal missions and objectives;

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.

~~28.~~29. Other indicators provide evidence that control exists, 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 to liquidate 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.

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***Situations Where Control Does Not Exist***

~~29.~~30. Because of the uniqueness of the federal government, 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.

~~30.~~31. 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.

~~31.~~32. 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 Principle

Comment [HS5]: Since Misleading to Exclude has become a term of art, I do not think Include or Exclude need to be replaced with Report and Not Report.

~~32.~~33. There may be instances when an organization does not meet the ~~inclusion~~ principles for determining which organizations to report in the GPFFR (paragraphs 19~~18~~ through 29~~28~~) yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.[13]

~~33.~~34. Organizations should be ~~included~~reported in the government-wide GPFFR if it would be misleading to exclude them.

**Reporting on Organizations--~~Core Entities and Non-core Entities~~Consolidation or Disclosure**

[13] Although such situations would be rare, this Statement provides for situations that may arise.

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34.35. The above principles above should be used to assess which organizations to includereport in GPFFRs. Next, a distinctionAll entities reported in the GPFFRs (based on paragraphs 18-34) should be made between core entities (entitiesassessed against the criteria in paragraphs 37-47 to determine whether they should be consolidated) and non-core entities (entities to be or disclosed). This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides core federal government goods and services on a non-market basis. Note, howeverHowever, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

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Core entities

36. Entities that meet the definition of receiverships and conservatorships, and of interventions, as defined below, are also considered disclosed entities.

Entities to be Consolidated

35.37. Generally, entities which are financed primarily through taxes, fees, and other non-exchange revenues; governed by the Congress and/or the President, impose significant risks and rewards on the taxpayer; and/or provide goods and services to the public on a non-market basis should be consolidated in GPFFR. Such entities are referred to hereafter as "consolidated entities." Entities listed in the budget, except for non-federal organizations receiving federal assistance (see par 2019), are presumed to qualify as coreconsolidated entities while greater judgment will be needed to classify other organizations.

36. Core entities are financed primarily through taxes, fees, and other non-exchange revenues. Significant risks and rewards fall to the taxpayer for core entities. Core entities generally provide goods and services on a non-market basis.[14]

37.38. Accountability for core entities rests withGoverned by the Congress and/or the President. Their means that 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 approval of budgets, and the appointment of organizational leaders by the Congress and/or the President. Hence, accountability for consolidated entities rests with the Congress and/or the President and there is more direct involvement in decision making than for entities to be disclosed.

Comment [HS6]: Since this basically duplicates the prior paragraph, I blended it with the prior paragraph and struck this one.

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Comment [HS7]: This provides a transition from paragraph 35

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Non-core entities

[14] 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 goods or services.

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## Entities to be Disclosed

~~38.~~39. The federal government may have relationships with organizations ~~afforded a greater degree of autonomy than core entities. Some non-core entities, may~~that exercise powers that are reserved to the federal government as sovereign~~. Other non-core entities may not~~ , but that have a greater degree of autonomy than entities that are consolidated. It also may have relationships with entities that, by themselves, may not 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 entities in receivership. To avoid obscuring information about these more autonomous organizations, such~~ or for other reasons, the federal government has an ownership interest and/or the ability to control. Such entities are reported in GPFFR's for accountability purposes but are to be disclosed rather than consolidated~~ in GPFFRs . These organizations~~ . Hereafter, these entities are referred to as ~~"non-core~~"disclosed entities."

~~39.~~40. ~~Non-core~~Disclosed 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.

~~40.~~41. ~~Non-core~~Disclosed entities receive limited or no taxpayer support. Accountability rests with the Congress and/or the President, but they have less direct involvement in decision making than in ~~core~~consolidated entities. Limited risks and rewards fall to the taxpayers. ~~Non-core~~Disclosed entities may provide the same or similar goods and services that ~~core~~consolidated entities do, but are more likely to provide them on a market basis.[15]

~~41.~~42. ~~Non-core~~Disclosed entities may include but are not limited to: governmental, quasi governmental and/or financially independent entities meeting the criteria for disclosed entities, entities in receiverships and conservatorships, and entities ~~owned or controlled through federal~~in which the Federal government ~~intervention actions. In~~provides some ~~cases, the relationship with the federal government is not expected to be permanent.~~ type of financial support or assumes some level of financial risk because failure of the entity could have an adverse impact on the nation's economy, commerce, national security, etc. The following ~~non-core~~disclosed entity types are presented to assist in identifying entities that are ~~non-core~~disclosed entities. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

**Comment [HS8]:** I broadened this because not all interventions have called for ownership or control.

**Comment [HS9]:** I do not think this is relevant or needed.

[15] 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.

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***Disclosed Governmental, Quasi Governmental and/or Financially Independent Entities***

~~42.~~43. Disclosed Governmental, Quasi Governmental and/or Financially Independent Entities ~~are hybrid organizations that~~ differ from ~~core~~consolidated entities with regard to governance and/or financial arrangements. –Such disclosed entities 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 entity is financed primarily through taxes and other non-exchange revenues versus limited or no taxpayer support; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis

~~43.~~44. 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

~~44.~~45. 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 to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government

~~45.~~46. ~~While not all entities of a given type will meet the characteristics above, examples of the~~ For some types of entities, there are differences among the

entities within the types such that ~~may be~~the application of the above characteristics will result in some individual entities within a type being classified as consolidated and other individual entities of that type being classified as quasi governmental and/or financially independent entities ~~include certain~~. Examples of these types of entities are Federally Funded Research and Development Centers, museums, performing arts organizations, universities, and venture capital funds. Each individual entity should be assessed objectively ~~since there are likely to be differences among~~against the ~~entities within these example types such that some should be core entities~~characteristics and ~~others non-core entities.~~ categorized based on the characteristics.

***Receiverships and Conservatorships***[16]

~~46.~~47. ~~Certain~~The federal ~~entities~~government may take control or ownership of failing or failed financial institutions, such as banks, with no goal to maintain permanent control or ownership. Receiverships ~~or~~and conservatorships ~~may be~~are established to liquidate ~~failing~~these financial institutions or to guide such institutions back to safe and sound conditions.[17] ~~Entities controlled or owned through~~ Since such receiverships ~~or~~and conservatorships are ~~likely to be non-core~~ controlled or owned by the federal government, they would be disclosed entities.

***Federal Government Intervention Actions*** ~~***Resulting in Control or Ownership***~~

~~47.~~48. The federal government may intervene in exceptional circumstances, such as an economic crisis or military occupation, due to its broad responsibility for the well being of the country. ~~Although intervention~~Intervention actions are not expected to be permanent, but they may not include a specific time limit.

~~48.~~49. 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 or aided through ~~interventions~~intervention actions.

~~49.~~50. Examples of intervention actions ~~resulting in control or ownership~~ include:

[16] 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 ~~and the duration of the relationship is typically shorter.~~ .

[17] 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."

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**Comment [HS10]:** Which universities are being referred to?

**Comment [HS11]:** I rewrote to clarify what I think Wendy is concerned about.

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**Comment [HS12]:** I removed the last phrase in the note. I don't think it ist borne out by the facts. The Fannie Mae and Freddie Mac conservatorships are was longer than any receivership

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**Comment [HS13]:** The phrase is not necessary and should be deleted, particularly since not all interventions result in control or ownership.

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a. Temporary control with ~~expected~~possible benefits or risk of loss-- the federal government ~~seizes~~assumes control of an established organization but expects to relinquish or cede control.

Comment [HS14]: Assumes is not as pejorative word as seized

b. Temporary assistance-- the federal government obtains possible benefits or assumes risk of loss, such as through extending loans or debt guarantees

~~b.~~c. Temporary ownership--the federal government acquires an ownership interest of an organization but expects to end its interest as soon as practicable.

~~50.~~51. Intervention actions that exist at fiscal year-end must be assessed to confirm ~~the resulting control or ownership~~that any involvement is not expected to be permanent. If the intervention activities ~~are not expected~~appear to be ~~permanent or~~ other ~~characteristics of non-core entities exist~~than temporary, organizations ~~controlled or owned as a result of~~for which an intervention ~~actions would~~action has been taken may have to be ~~non-core entities.~~consolidated or disclosed as a Governmental, Quasi Governmental and/or Financially Independent Entity.

Comment [HS15]: As written, this paragraph did not make sense. It repeats what paragraph 34a already said. I therefore rewrote it to encompass the Amtrak situation, which Wendy frequently raises.

**Component Reporting Entities**

~~51.~~52. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity[18] and the ~~inclusion~~ principles to determine which organization to report in the GPFFR 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~~report in their GPFFRs all ~~core~~consolidated and ~~non-core~~disclosed entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

~~52.~~53. A component reporting entity's GPFFR should ~~include~~report all organizations that would allow the Congress and the President to hold its management (appointed officials or other agency heads) accountable for implementation of public policy decisions. ~~Inclusion~~Reporting on organizations 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 ~~core~~consolidated and ~~non-core~~dislcosed entities administratively assigned to it.

~~53.~~54. Administrative assignments to component reporting entities are typically made in policy documents such as laws, budget documents, regulations, or strategic

[18] SFFAC 2, par. 38.

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plans. Administrative assignments can be identified by evaluating one or more of the following areas:[19]

a. Scope of the Budget Process

b. Accountability Established Within a Component Entity

c. Misleading to Exclude and/or Misleading to Include

Scope of the Budget Process

~~54.~~55. ~~Core~~Consolidated and ~~non-core~~disclosed entities subject to the budget approval and oversight process of the component reporting entity head should be ~~included~~reported in the component reporting entity GPFFR. Each component reporting entity should ~~include~~report:

a. all ~~core~~consolidated entities listed within its section of the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule titled *Federal Programs by Agency and Account* unless they are non-federal organizations receiving federal financial assistance[20] and

b. all ~~non-core~~disclosed entities included within its Congressional Budget Justification.[21]

Accountability Established Within a Component Entity

~~55.~~56. ~~Core~~Consolidated and ~~non-core~~disclosed entities for which a component reporting entity has been assigned accountability responsibilities should be ~~included~~reported in its GPFFR. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators[22] that accountability has been established in the component reporting entity include:

[19] Component reporting entities should develop processes to ensure organizations in each of the areas identified in par. 53 a.- c. have been considered and assessed. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

[20] See par. 19.

[21] The Congressional Budget Justification is the document submitted annually to Congress to justify an organizations budget request.

[22] 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.

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a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.[23]

b. An organization is included in the component reporting entity's published organization chart.

c. The component reporting entity acquires and/or monitors[24] ownership interests in organizations where there are ongoing responsibilities[25] such as:

(1) ~~monitoring activities and/or reporting on outcomes,~~

~~(2) monitoring the value of the ownership interest,~~

~~(3)~~(2) coordinating and/or conveying input on strategic plans,

~~(4)~~(3) providing appropriated funds to the organization and receiving requests for funding ~~in future years~~, or

~~(5)~~(4) administering any federal grants or contracts awarded to the organization.

~~(6)~~(5) monitoring activities and/or reporting on outcomes,

(6) monitoring the value of the ownership interest,[26]

Comment [HS16]: I resequenced to reflect that planning typically comes first, and funding is needed before one has something to monitor.

d. A controlled organization[27] was established by statute or 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:

(1) approving bylaws including any amendments,

(2) being represented on the governing board (e.g., as an ex-officio member),

(3) appointing members of the governing board,

(4) coordinating and/or conveying input on strategic plans,

(5) monitoring organizational performance,

(6) approving budgets, operating plans, or contracts with others,

(7) establishing and executing cooperative agreements with the organization,

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[23] For example, the United States Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the US Department of Commerce.

[24] Such responsibilities may be assigned to a program office.

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

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

[27] Where control exists at the government-wide level based on paragraphs 22-31.

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(8) administering federal grants to or contracts with the organization,

(9) testifying before Congress regarding entity performance and objectives, or

(10) significant financial transactions or balances that indicate ongoing managerial involvement.

~~56.~~57. If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:

a. ~~Non-core~~Disclosed entities should be ~~included~~reported in the GPFFR of each component reporting entity assigned such responsibilities.

*b.* ~~Core~~Consolidated entities should be administratively assigned to only one component reporting entity.[28] The component reporting entity assigned the largest share of -responsibilities described in paragraph 56~~55~~ generally should include the ~~core~~consolidated entity..

~~57.~~58. If a ~~non-core~~disclosed entity has not been administratively assigned to a ~~core~~consolidated entity, the ~~non-core~~disclosed entity should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the ~~non-core~~disclosed entity or (b) with which its mission most closely aligns. The Office of Management and Budget should assist in determining which component reporting entity or entities should ~~include~~report the ~~non-core~~disclosed entity.

Misleading to Exclude and / or Misleading to Include

~~58.~~59. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs ~~54-57,~~6-8, 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.[29]

~~59.~~60. There may be instances where administrative assignments of ~~core~~consolidated entities based on the principles in paragraphs ~~54-57,~~6-8, would result in misleading presentation. For example, an organization may have been legally established within a larger entity while being authorized to operate

[28] Note that the component reporting entity to which a ~~core~~consolidated entity is administratively assigned may also be administratively assigned to a higher level component reporting entity.
[29] Although such situations would be rare, this Statement provides for situations that may arise.

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independently. While such conditions are expected to be rare, if it would be misleading to include ~~the~~the organization in the component reporting entity GPFFR, the organization may be excluded so long as it prepares its own GPFFR which is consolidated in a larger reporting entity (which could be the government-wide reporting entity or another component reporting entity).

Comment [HS17]:

Comment [HS18]:

~~60.~~61. Determining whether it would be misleading to include a ~~core~~consolidated entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples[30] 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:

(1) the budget request not being approved by component reporting entity management, or

(2) 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.

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d. ~~Inclusion~~Reporting 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.

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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**

~~Core~~Consolidated entities

[30] The indicators listed in ~~60~~61 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.

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~~61.~~62. ~~Core entities'~~ The financial ~~statements~~ information for all entities determined to be consolidated entities' should be consolidated ~~to facilitate an assessment of~~in the financial ~~position of the federal government and the cost of operations financed by taxpayers.~~statements.[31] A component reporting entity should provide consolidated financial statements for all ~~core~~consolidated entities administratively assigned to it. Consolidation[~~32~~] aggregates the individual financial balances of entities comprising a reporting entity and results in presentation of information for a single economic entity representing ~~core~~ taxpayer supported activities, resources, and obligations where accountability rests with the Congress and/or the President. Such a presentation would facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers.

~~62.~~63. ~~Core~~Consolidated entities as defined herein 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*.

~~63.~~64. SFFAS 34 recognizes that a limited number of federal 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. Consolidated reporting entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for ~~core~~consolidated entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts, ~~which~~with disclosures ~~should be~~ measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

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~~Non-core~~Disclosed entities

[31] 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.

~~[32] 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.~~

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~~64.~~65. Maintaining a distinction between the finances of ~~core~~consolidated entities and ~~non-core~~disclosed entities will more effectively meet federal financial reporting objectives. However, federal financial reporting objectives cannot be fully met without information regarding ~~non-core~~disclosed entities.

~~65.~~66. For those organizations classified as ~~non-core~~disclosed entities, this Statement provides for judgment by the preparer in determining the appropriate disclosures based on the factors and principles provided herein. Disclosures regarding ~~non-core~~disclosed entities should be provided in accordance with Disclosures for ~~Non-core~~Disclosed Entities as detailed in par. 68~~67~~ to 71~~70~~ below after considering the factors listed in par. 67~~66~~.

***Factors in Determining ~~Non-Core~~Disclosed Entity Disclosures***

~~66.~~67. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining ~~non-core~~disclosed entity disclosures. Beyond materiality, the following factors[33] should be considered in making judgments about the extent of appropriate ~~non-core~~disclosed entity disclosures:

a. ***Relevance to reporting objectives*** - Significance of the ~~non-core~~disclosed entity to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting,* with regard to the ~~core~~consolidated 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 benefits or risks/exposures associated with the relationship***- Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to potential gain and risk of loss, to the ~~core~~consolidated entity resulting from the ~~non-core~~disclosed entity's operations.

c. ***~~Non-core~~Disclosed entity views/perspective***- (Entities ~~determined to be non-core~~disclosed in accordance with paragraphs ~~38 -- 41.)~~39 -- 2.) Information about how the ~~non-core~~ entities determined to be disclosed account for or report on their relationship with the federal government is a factor. For example, whether the ~~non-core~~disclosed

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

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entity 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.

Comment [HS19]: Readers will wonder whether an entity view of itself as an extension of the Federal government means more disclosure or less disclosure. What is the intent?

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 disclosure regarding the ~~non-core~~disclosed entity 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.

***Disclosures for ~~Non-core~~Disclosed Entities***

~~67.~~68. In addition to the factors presented in par. ~~66~~7 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether the disclosures for a ~~non-core~~disclosed entity should be presented separately due to ~~their~~the significance or size of the entity or aggregated with the disclosure of other ~~non-core~~disclosed entities. If disclosures are aggregated, aggregation may be based on ~~non-core~~disclosed entity type, class, investment type, or a particular event deemed significant to the reporting ~~entity~~entities.

Comment [HS20]: How do type and class differ?

Comment [HS21]: What is meant by investment type?

~~68.~~69. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive disclosure regarding the ~~non-core~~disclosed entity and related balances or by incorporating references to relevant disclosures elsewhere in the GPFFR ~~but relating~~that are related to the ~~non-core~~disclosed entity. For example, a reference may be made to a disclosure regarding investments in the ~~non-core~~disclosed entity.

~~69.~~70. For each significant ~~non-core~~disclosed entity and aggregation of ~~non-core~~disclosed entities, information should be disclosed to meet the following objectives[34]:

[34] The objectives are not listed in any order of preference.

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a. ***Organization.*** The nature of the disclosed entity's(ies') organization and governance that differentiate it from the consolidated entities.

Comment [HS22]: This should help users understand why the entity is not consolidated.

~~a.~~b. ***Relationship:*** The nature of the federal government's and/or component entity's relationship with the ~~non-core~~disclosed entity or entities

~~b.~~c. ***Relevant Activity:*** Nature and magnitude of the disclosed entity's(ies') significant relevant activity during the period and balances at the end of the period

~~c.~~d. ***Future exposures:*** A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's and/or component entity's exposure to gains and losses from the past or future operations of the ~~non-core~~disclosed entity(ies).

~~70.~~71. Examples of information that may meet the above objectives and provide the necessary understanding of the ~~non-core~~disclosed entity's organization and governance, relationship, activities, and future exposures specific to the federal government are provided below.[35] In determining what information is needed to meet the objectives in paragraph ~~69,~~70, the factors in paragraph ~~66,~~7, 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 ~~non-core~~disclosed entity,[36] including information about its mission and organization and any significant involvements with outside parties

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b. The nature of the relationship between the federal government and the ~~non-core~~disclosed entity including relevant information regarding:

(1) How any control or influence over the ~~non-core~~disclosed entity is exercised

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(2) Key terms of contractual agreements, statutes, or other legal authorities

(3) The percentage of ownership interest and/or voting rights held by the Federal government or any of its components

[35] 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~~the disclosure ~~that meets~~should meet the objectives in paragraph ~~69 should be provided~~70.

[36] For simplicity, information is described in relation to a single ~~non-core~~disclosed entity. Nonetheless, the information may be presented for an aggregation of similar ~~non-core~~disclosed entities.

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c. Significant activities undertaken during the period related to the sovereign powers of the Federal government and/or component entities.

Comment [HS23]: I think Mike Granoff will want to see something along these lines.

~~c.~~d. 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 ~~non-core~~disclosed entity and/or a statement that the intervention is not expected to be permanent

Comment [HS24]: The Federal government did not operate most of the Interventions, but it did monitor them

~~d.~~e. 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 ~~non-core~~disclosed entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)

~~e.~~f. A discussion of key financial indicators and changes in key financial indicators

~~f.~~g. Information regarding the availability of the ~~non-core~~disclosed entity's annual financial report and how it can be obtained

~~g.~~h. In the event that contractual agreements, statues, or other legal authorities obligate the ~~core~~consolidated entity to provide financial support to the ~~non-core~~disclosed 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.~~i. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the entity during the period

~~i.~~j. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the ~~non-core~~disclosed entity, including how the maximum exposure to gain or loss is determined. If this cannot be quantified, a narrative discussion could be offered.

~~j.~~k. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to potential gain and risk of loss to the reporting entity, resulting from the ~~non-core~~disclosed entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable.

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~~71. If the non-core entity exercises powers reserved to the federal government as sovereign, disclosures[37] about such entities should include, at a minimum, information regarding:~~

~~a. Its mission~~
~~b. The relationship of its mission to federal policy objectives~~
~~c. Its organizational structure~~
~~d. Nature and magnitude of relevant activity during the period and balances at the end of the period~~
~~e. A description of financial and non-financial risks and potential benefits~~
~~f. If possible, the amount of the federal government's exposure to gains and losses from the past or future operations~~
~~g. The availability of its annual financial report and how it can be obtained~~

~~Non-core~~

Comment [HS25]: I struck this because just about every Quasi-Government/Financially Independent exercises powers reserved to the sovereign. Why else would they exist?

72. Disclosed entity information disclosed in the GPFFR should be based on accrual basis standards provided in generally accepted accounting principles for its specific type of entity.[38] This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

73. When information is derived from the ~~non-core~~disclosed entity'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 ~~non-core~~disclosed entity'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 ~~non-core~~disclosed entity's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.

74. Significant changes in information occurring from the end of the ~~non-core~~disclosed entity'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*.

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~~[37] As discussed in par. 68, disclosures should be integrated so that concise, meaningful and transparent information is provided.~~

[38] ~~Core~~Consolidated government 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*.

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### Related Party

75. In addition, the federal government may be able to exercise influence over certain organizations that were not ~~included~~reported in the GPFFR but the relationship should also be disclosed. NOTE: The issue of related parties is addressed in an issue paper at Tab C.

~~76.~~

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## Proposed Standards

### Scope and Applicability

5. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFR) 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*.

6. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable entities preparing and issuing GPFFRs to determine:

   a. whether SFFAS 34 is applicable to an organization,

   b. what organizations to report in the GPFFR of entities applying SFFAS 34,

   c. the manner in which information should be presented for organizations reported in the GPFFR, and

   d. what, disclosures, if any, are needed regarding related parties.

### Definitions

Definitions in paragraphs 7 through 10 are presented first because of their importance in understanding the Statement. Other terms shown in boldface type the first time they appear in this document are presented in the Glossary at Appendix D. Respondents to this proposal may want to examine all definitions before reviewing the Statement and Basis for Conclusions.

7. **Reporting Entity** Reporting entities are entities 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.[1] The criteria focus on whether an entity should issue GPFFRs and are that a reporting 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.

8. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR reports all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.

9. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.[2] Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components reported in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department but prepares its own standalone GPFFR.

10. **Control with possible benefits or risk of loss** Control with possible benefits or risk of loss is 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[3] or be obligated to provide financial support or assume financial obligations.

11. **Sovereign Powers** Sovereign powers are the powers enumerated in the Constitution, which includes the power to lay and collect taxes, duties, imposts, and excises; pay the debts and provide for the common defense and general welfare of the United States; borrow money on the credit of the United States; regulate commerce with foreign nations and among the several states; establish

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[1] SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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

[3] 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.

uniform rules of naturalization and bankruptcy; coin money and regulate the value thereof; fix the standards of weights and measures; provide for the punishment of counterfeiting; establish post offices and post roads; secure for authors and inventors the exclusive rights to their writings and discoveries; constitute tribunals; define and punish piracies and felonies committed on the high seas; declare war; raise and support armed forces; make treaties.

## Organizational Approach to Defining Boundaries

12. SFFAC 2 described how the federal government is an extremely complex organization composed of many different components. It also described how, for accounting and reporting purposes, it may be viewed from at least three different perspectives: an organization perspective, a budget perspective, and a program perspective. SFFAC 2[4] concluded that the most appropriate perspective for understanding the composition and reporting the financial position of the federal government would be the organization perspective. .

13. Furthermore, the component organizations serve varied purposes and have complex governance structures and finances. In some instances, the reporting objectives established in SFFAC 1 can best be met by consolidating the financial information of several organizations. In other instances, a more useful approach would be to separately disclose the information for some of the organizations.

14. This Statement first establishes the principles for determining which organizations to report in the government-wide GPFFR (see Principles for Determining which Organizations to Report in the Government-wide GPFFR) It then distinguishes between Entities to be Consolidated and Entities to be Disclosed (see section (see Reporting on Organizations—Consolidation or Disclosure).

15. This Statement also establishes that component reporting entities must identify and report in their GPFFRs all Entities to be Consolidated and Entities to be Disclosed for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

16. Lastly, the Statement addresses presentation of financial information based on those decisions (see GPFFR- Consolidation and Disclosure).

17. ADD RELATED PARTY (Tab C)

## Principles for Determining which Organizations to Report in the Government-wide GPFFR

[4] SFFAC 2, par. 31-38.

18. This Statement provides three principles for determining which organizations should be reported in the government-wide GPFFR. It also requires reporting of organizations if it would be misleading to exclude them (see par. 34).

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

    a. In the Budget

    b. Majority Ownership Interest

    c. Control with Possible Benefits or Risk of Loss

In the Budget

20. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule titled *Federal Programs by Agency and Account* should be reported in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.[5] Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Possible Benefits or Risk of Loss*) to determine whether they should be reported in the government-wide GPFFR.

Majority Ownership Interest

21. The federal government (directly or through its components) may have an ownership interest[6] 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.

*22.* Majority ownership interest exists with over 50% of the voting rights or net residual assets[7] of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization it should be reported in the government-wide GPFFR.[8]

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[5] 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.

[6] 'Ownership interest' is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Glossary FASAB Pronouncements as Amended as of June 30, 2011.*

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

[8] 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.

Control with Possible Benefits or Risk of Loss

23. An organization that is controlled by the federal government with the possibility of benefits or risk of loss should be reported in the government-wide GPFFR. For these purposes, control with the possibility of benefits or risk of loss is defined as follows:

    **Control with possible benefits or risk of loss** is 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[9] benefits or be obligated to provide financial support or assume financial obligations. Both the power and either the possible benefit or risk of loss aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with possible benefits or risk of loss is referred to as "control."

24. 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.

25. 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.

26. 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 it does not have control—such as another sovereign government.

***Indicators of Control***

27. 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

[9] 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.

the relationship between the federal government and the organization and judgment applied to determine whether control exists.

28. 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,[10] which may include authorizing the organization to exercise sovereign power of the federal government and requiring the organization to carry out federal missions and objectives;

    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.

29. Other indicators provide evidence that control exists, 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 to liquidate 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;

[10] Congressionally chartered nonprofit organizations identified under 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 29 or another indicator in this paragraph.

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***

30. Because of the uniqueness of the federal government, 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.

31. 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.

32. 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 Principle

33. There may be instances when an organization does not meet the principles for determining which organizations to report in the GPFFR (paragraphs 19 through

29) yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.[11]

34. Organizations should be reported in the government-wide GPFFR if it would be misleading to exclude them.

**Reporting on Organizations--Consolidation or Disclosure**

35. The above principles should be used to assess which organizations to report in GPFFRs. All entities reported in the GPFFRs (based on paragraphs 18-34) should be assessed against the criteria in paragraphs 37-47 to determine whether they should be consolidated or disclosed. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis. However, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

36. Entities that meet the definition of receiverships and conservatorships, and of interventions, as defined below, are also considered disclosed entities.

Entities to be Consolidated

37. Generally, entities which are financed primarily through taxes, fees, and other non-exchange revenues; governed by the Congress and/or the President, impose significant risks and rewards on the taxpayer; and/or provide goods and services to the public on a non-market basis should be consolidated in GPFFR. Such entities are referred to hereafter as “consolidated entities.” Entities listed in the budget, except for non-federal organizations receiving federal assistance (see par 20), are presumed to qualify as consolidated entities while greater judgment will be needed to classify other organizations.

38. Governed by the Congress and/or the President means that 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 approval of budgets, and the appointment of organizational leaders by the Congress and/or the President. Hence, accountability for consolidated entities rests with the Congress and/or the President and there is more direct involvement in decision making than for entities to be disclosed.

Entities to be Disclosed

[11] Although such situations would be rare, this Statement provides for situations that may arise.

39. The federal government may have relationships with organizations that exercise powers that are reserved to the federal government as sovereign, but that have a greater degree of autonomy than entities that are consolidated. It also may have relationships with entities that, by themselves, may not carry out missions of the federal government but, as a result of regulatory actions or for other reasons, the federal government has an ownership interest and/or the ability to control. Such entities are reported in GPFFR's for accountability purposes but are to be disclosed rather than consolidated. Hereafter, these entities are referred to as "disclosed entities."

40. Disclosed 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.

41. Disclosed entities receive limited or no taxpayer support. Accountability rests with the Congress and/or the President, but they have less direct involvement in decision making than in consolidated entities. Limited risks and rewards fall to the taxpayers. Disclosed entities may provide the same or similar goods and services that consolidated entities do, but are more likely to provide them on a market basis.[12]

42. Disclosed entities may include but are not limited to: governmental, quasi governmental and/or financially independent entities meeting the criteria for disclosed entities, entities in receiverships and conservatorships, and entities in which the Federal government provides some type of financial support or assumes some level of financial risk because failure of the entity could have an adverse impact on the nation's economy, commerce, national security, etc. The following disclosed entity types are presented to assist in identifying entities that are disclosed entities. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

***Disclosed Governmental, Quasi Governmental and/or Financially Independent Entities***

43. Disclosed Governmental, Quasi Governmental and/or Financially Independent Entities differ from consolidated entities with regard to governance and/or financial arrangements. Such disclosed entities 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 entity is financed primarily through taxes and other non-exchange revenues versus limited or no taxpayer support; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis

[12] 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.

44. 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

45. 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 to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government

46. For some types of entities, there are differences among the entities within the types such that the application of the above characteristics will result in some individual entities within a type being classified as consolidated and other individual entities of that type being classified as quasi governmental and/or financially independent entities. Examples of these types of entities are Federally Funded Research and Development Centers, museums, performing arts organizations, universities, and venture capital funds. Each individual entity should be assessed objectively against the characteristics and categorized based on the characteristics.

***Receiverships and Conservatorships***[13]

47. The federal government may take control or ownership of failing or failed financial institutions, such as banks, with no goal to maintain permanent control or ownership. Receiverships and conservatorships are established to liquidate these financial institutions or to guide such institutions back to safe and sound conditions.[14] Since such receiverships and conservatorships are controlled or owned by the federal government, they would be disclosed entities.

***Federal Government Intervention Actions***

48. The federal government may intervene in exceptional circumstances, such as an economic crisis or military occupation, due to its broad responsibility for the well being of the country. Intervention actions are not expected to be permanent, but they may not include a specific time limit.

49. 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 or aided through intervention actions.

50. Examples of intervention actions include:

    a. Temporary control with possible benefits or risk of loss-- the federal government assumes control of an established organization but expects to relinquish or cede control.

    b. Temporary assistance-- the federal government obtains possible benefits or assumes risk of loss, such as through extending loans or debt guarantees

    c. Temporary ownership--the federal government acquires an ownership interest of an organization but expects to end its interest as soon as practicable.

51. Intervention actions that exist at fiscal year-end must be assessed to confirm that any involvement is not expected to be permanent. If the intervention activities appear to be other than temporary, organizations for which an intervention action has been taken may have to be consolidated or disclosed as a Governmental, Quasi Governmental and/or Financially Independent Entity.

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[13] 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.

[14] 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."

**Component Reporting Entities**

52. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity[15] and the principles to determine which organization to report in the GPFFR 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 report in their GPFFRs all consolidated and disclosed entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

53. A component reporting entity's GPFFR should report all organizations that would allow the Congress and the President to hold its management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Reporting on organizations 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 consolidated and dislcosed entities administratively assigned to it.

54. Administrative assignments to component reporting entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating one or more of the following areas:[16]

    a. Scope of the Budget Process

    b. Accountability Established Within a Component Entity

    c. Misleading to Exclude and/or Misleading to Include

Scope of the Budget Process

55. Consolidated and disclosed entities subject to the budget approval and oversight process of the component reporting entity head should be reported in the component reporting entity GPFFR. Each component reporting entity should report:

[15] SFFAC 2, par. 38.

[16] Component reporting entities should develop processes to ensure organizations in each of the areas identified in par. 53 a.- c. have been considered and assessed. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

a. all consolidated entities listed within its section of the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule titled *Federal Programs by Agency and Account* unless they are non-federal organizations receiving federal financial assistance[17] and

b. all disclosed entities included within its Congressional Budget Justification.[18]

Accountability Established Within a Component Entity

56. Consolidated and disclosed entities for which a component reporting entity has been assigned accountability responsibilities should be reported in its GPFFR. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators[19] 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.[20]

b. An organization is included in the component reporting entity's published organization chart.

c. The component reporting entity acquires and/or monitors[21] ownership interests in organizations where there are ongoing responsibilities such as:

(1) coordinating and/or conveying input on strategic plans,

(2) providing appropriated funds to the organization and receiving requests for funding, or

(3) administering any federal grants or contracts awarded to the organization.

(4) monitoring activities and/or reporting on outcomes,

(5) monitoring the value of the ownership interest,[22]

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[17] See par. 19.

[18] The Congressional Budget Justification is the document submitted annually to Congress to justify an organizations budget request.

[19] 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.

[20] For example, the United States Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the US Department of Commerce.

[21] Such responsibilities may be assigned to a program office.

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

d. A controlled organization[23] was established by statute or 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:

(1) approving bylaws including any amendments,

(2) being represented on the governing board (e.g., as an ex-officio member),

(3) appointing members of the governing board,

(4) coordinating and/or conveying input on strategic plans,

(5) monitoring organizational performance,

(6) approving budgets, operating plans, or contracts with others,

(7) establishing and executing cooperative agreements with the organization,

(8) administering federal grants to or contracts with the organization,

(9) testifying before Congress regarding entity performance and objectives, or

(10) significant financial transactions or balances that indicate ongoing managerial involvement.

*57.* If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:

a. Disclosed entities should be reported in the GPFFR of each component reporting entity assigned such responsibilities.

*b.* Consolidated entities should be administratively assigned to only one component reporting entity.[24] The component reporting entity assigned the largest share of responsibilities described in paragraph 56 generally should include the consolidated entity..

58. If a disclosed entity has not been administratively assigned to a consolidated entity, the disclosed entity should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosed entity or (b) with which its mission most closely aligns. The Office of Management and Budget should assist in

[23] Where control exists at the government-wide level based on paragraphs 22-31.

[24] Note that the component reporting entity to which a consolidated entity is administratively assigned may also be administratively assigned to a higher level component reporting entity.

determining which component reporting entity or entities should report the disclosed entity.

Misleading to Exclude and / or Misleading to Include

*59.* There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 6-8, 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.[25]

60. There may be instances where administrative assignments of consolidated entities based on the principles in paragraphs 6-8, would result in misleading presentation. For example, an organization may have been legally established within a larger entity while being authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to include the organization in the component reporting entity GPFFR, the organization may be excluded so long as it prepares its own GPFFR which is consolidated in a larger reporting entity (which could be the government-wide reporting entity or another component reporting entity).

61. Determining whether it would be misleading to include a consolidated entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples[26] 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:

(1) the budget request not being approved by component reporting entity management, or

(2) 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.

[25] Although such situations would be rare, this Statement provides for situations that may arise.
[26] The indicators listed in 61 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.

c. The organization's funding is separate from the component reporting entity's funding.

d. Reporting 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**

Consolidated entities

62. The financial information for all entities determined to be consolidated entities' should be consolidated in the financial statements.[27] A component reporting entity should provide consolidated financial statements for all consolidated entities administratively assigned to it. Consolidation aggregates the individual financial balances of entities comprising a reporting entity and results in presentation of information for a single economic entity representing taxpayer supported activities, resources, and obligations where accountability rests with the Congress and/or the President. Such a presentation would facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers.

63. Consolidated entities as defined herein 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*.

64. SFFAS 34 recognizes that a limited number of federal 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. Consolidated reporting entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidated entities prepared in

[27] 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.

accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts, with disclosures measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

Disclosed entities

65. Maintaining a distinction between the finances of consolidated entities and disclosed entities will more effectively meet federal financial reporting objectives. However, federal financial reporting objectives cannot be fully met without information regarding disclosed entities.

66. For those organizations classified as disclosed entities, this Statement provides for judgment by the preparer in determining the appropriate disclosures based on the factors and principles provided herein. Disclosures regarding disclosed entities should be provided in accordance with Disclosures for Disclosed Entities as detailed in par. 68 to 71 below after considering the factors listed in par. 67.

***Factors in Determining Disclosed Entity Disclosures***

67. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosed entity disclosures. Beyond materiality, the following factors[28] should be considered in making judgments about the extent of appropriate disclosed entity disclosures:

    a. ***Relevance to reporting objectives*** - Significance of the disclosed entity to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting,* with regard to the consolidated 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 benefits or risks/exposures associated with the relationship***- Information is needed to provide an

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

understanding of the potential operational or financial impact, including financial-related exposures to potential gain and risk of loss, to the consolidated entity resulting from the disclosed entity's operations.

c. ***Disclosed entity views/perspective***- (Entities disclosed in accordance with paragraphs 39 -- 2.) Information about how the entities determined to be disclosed account for or report on their relationship with the federal government is a factor. For example, whether the disclosed entity 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 disclosure regarding the disclosed entity 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.

### *Disclosures for Disclosed Entities*

68. In addition to the factors presented in par. 7 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether the disclosures for a disclosed entity should be presented separately due to the significance or size of the entity or aggregated with the disclosure of other disclosed entities. If disclosures are aggregated, aggregation may be based on disclosed entity type, class, investment type, or a particular event deemed significant to the reporting entities.

69. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive disclosure regarding the disclosed entity and related balances or by incorporating references to relevant disclosures elsewhere in the GPFFR that are related to the disclosed entity. For example, a reference may be made to a disclosure regarding investments in the disclosed entity.

70. For each significant disclosed entity and aggregation of disclosed entities, information should be disclosed to meet the following objectives[29]:

*a.* ***Organization.*** The nature of the disclosed entity's(ies') organization and governance that differentiate it from the consolidated entities.

b. ***Relationship:*** The nature of the federal government's and/or component entity's relationship with the disclosed entity or entities

c. ***Relevant Activity:*** Nature and magnitude of the disclosed entity's(ies') significant relevant activity during the period and balances at the end of the period

d. ***Future exposures:*** A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's and/or component entity's exposure to gains and losses from the past or future operations of the disclosed entity(ies).

71. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosed entity's organization and governance, relationship, activities, and future exposures specific to the federal government are provided below.[30] In determining what information is needed to meet the objectives in paragraph 70, the factors in paragraph 7, 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 disclosed entity,[31] including information about its mission and organization and any significant involvements with outside parties

b. The nature of the relationship between the federal government and the disclosed entity including relevant information regarding:

(1) How any control or influence over the disclosed entity is exercised

(2) Key terms of contractual agreements, statutes, or other legal authorities

[29] The objectives are not listed in any order of preference.

[30] 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, the disclosure should meet the objectives in paragraph 70.

[31] For simplicity, information is described in relation to a single disclosed entity. Nonetheless, the information may be presented for an aggregation of similar disclosed entities.

(3) The percentage of ownership interest and/or voting rights held by the Federal government or any of its components

c. Significant activities undertaken during the period related to the sovereign powers of the Federal government and/or component entities.

d. 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 disclosed entity and/or a statement that the intervention is not expected to be permanent

e. 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 disclosed entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)

f. A discussion of key financial indicators and changes in key financial indicators

g. Information regarding the availability of the disclosed entity's annual financial report and how it can be obtained

h. In the event that contractual agreements, statues, or other legal authorities obligate the consolidated entity to provide financial support to the disclosed entity in the future, information regarding potential financial impacts (including terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)

i. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the entity during the period

j. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosed entity, including how the maximum exposure to gain or loss is determined. If this cannot be quantified, a narrative discussion could be offered.

k. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to potential gain and risk of loss to the reporting entity, resulting from the disclosed entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable.

72. Disclosed entity information disclosed in the GPFFR should be based on accrual basis standards provided in generally accepted accounting principles for its specific type of entity.[32] This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

73. When information is derived from the disclosed entity'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 disclosed entity'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 disclosed entity's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.

74. Significant changes in information occurring from the end of the disclosed entity'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*.

**Related Party**

75. In addition, the federal government may be able to exercise influence over certain organizations that were not reported in the GPFFR but the relationship should also be disclosed. NOTE: The issue of related parties is addressed in an issue paper at Tab C.

[32] Consolidated government 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*.

# Statement of Federal Financial Accounting Concepts 2: Entity and Display

## Status

| | |
|---|---|
| **Issued** | April 20, 1995 |
| **Interpretations and Technical Releases** | |
| **Affects** | No other statement. |
| **Affected by** | • Paragraphs 90-102, SFFAS 7, which affect paragraphs 64, 74, 105 of this statement, and add Appendix I-G.<br>• SFFAS 27, paragraph 38, amends footnote 3.<br>• SFFAS 31, paragraph 35, amends paragraphs 84 and 102.<br>• SFFAS 6, paragraphs 6 through 22, amend par. 2, 3, 55, 69, 72-74, 76-79, 81, and 108 as well as footnotes 11, 12, 12a, 14, and 17. |

## Summary

This concepts statement describes the basis for defining a reporting entity for the general purpose financial reporting performed by the Federal government and/or entities thereof. For any entity to be a reporting entity it should meet all of the following criteria:

- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
- The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

Criteria for including components in a reporting entity are also provided. A conclusive criterion establishes that any organization, program, or budget account (including off-budget accounts and government corporations) appearing in the Federal budget section currently titled "Federal Programs by Agency and Account" should be considered part of the Federal Government as well as part of the organization with which it appears. Indicative criteria are presented that should be considered when an organization is not listed in the "Federal Programs by Agency and Account" yet the general purpose financial statements might be misleading or incomplete if the organization where not included therein.

This concepts statement also describes the items that should be included in Federal financial reports and presents illustrative statements depicting desirable displays of financial information. The items include:

- management discussion and analysis;
- balance sheet;

- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of program performance measures;
- accompanying footnotes;
- required supplemental information pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate; and
- other supplemental financial and management information, when appropriate.

SFFAS 7, *Accounting for Revenue and Other Financing Sources*, amends the above list to include "statement of financing." SFFAS 7 also presents an illustrative statement of financing to amend the displays shown in Appendix A of SFFAC 2.

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# Introduction

1. A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.

2. The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining 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).

3. A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate accounting standards for the federal government. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. This Statement also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements.[1]

[1]OMB specifies the form and content of agency and governmentwide financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (title 31, U.S. Code, section 3515(d) and section 331(e)(1)) through periodic issuance of OMB Bulletins. OMB intends to base the form and content on the concepts contained in this statement.

4. This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.

5. The specification of reporting entities intends to be suitable for all organizations within the Executive branch of the Federal Government, including the Departments, independent agencies,[2] commissions, and corporations. FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. However, the concepts recommended in this statement would be appropriate for those branches.

6. The concepts, as defined in this statement, are intended primarily for the general purpose financial reporting performed by Federal entities. This is the financial reporting that these entities would undertake to help meet the objectives defined in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting." These objectives are as follows:

   - **Budgetary integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
   - **Operating performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
   - **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

[2]"Independent agencies" is a term used to distinguish agencies that are independent of a Cabinet department from the agencies that are part of the Cabinet departments. Independent agencies report directly to the President and are part of the U.S. Government.

- **Systems and control.** Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure proper execution of transactions, safeguard assets, and support performance measurement.

7. The concepts are also intended, as FASAB's mission statement requires, to help in meeting the financial and budgetary information needs of executive agencies and Congressional oversight groups, and to strengthen the conceptual basis and consistency of Federal accounting data.

8. The entity and display concepts presented in this statement do not preclude the specification of ad hoc or temporary reporting entities to meet special reporting needs of users of Federal agencies' financial information. Nor do they preclude a reporting entity from preparing special purpose financial reports to meet the specific needs of persons in the reporting entity or in response to requests from persons outside the entity for certain financial information; or from preparing a so-called "popular report," which provides a simplified, highly readable, easily understandable description of a reporting entity's finances. These statements would not necessarily purport to be presented in accordance with generally accepted accounting principles.

## Reasons For Defining Reporting Entities

9. The most basic reason for having an explicit understanding of what the reporting entity entails is to ensure that the users of the entity's financial reports are provided with all the information that is relevant to the reporting entity, subject to cost and time constraints. Clearly defining the boundaries of the reporting entity provides the users with a clear understanding of what the reporting entity encompasses. It helps to establish what information is relevant to the financial statements and what information is not.

10. Other reasons for having an explicit understanding of what the reporting entity entails are to:

    - ensure that for the aggregation of information at each reporting level, no entity is omitted, and to provide for consolidations and/or combinations of information from reporting units at the same level, as appropriate;

- assist in making comparisons among comparable reporting entities by reducing the possibility of unintended or arbitrary exclusions or inclusions of entities;
- assist in making comparisons among alternative ways to provide similar services or products;
- be able to distribute costs properly and fully and to properly attribute the responsibility for assets and liabilities; and
- facilitate evaluating performance, responsibility, and control, especially where one agency is the provider or recipient of services attributable to or financed by another agency.

## Structure Of The Federal Government

11. The Federal Government is an extremely complex organization composed of many different components. For accounting and reporting purposes, it may be viewed from at least three perspectives. However, the nature of each type of component and the relationships among the components and perspectives are not always consistent.

### Organization Perspective

12. The first type of perspective is the **organization** perspective. The Federal Government is composed of organizations that manage resources and are responsible for operations, i.e., delivering services. These include the major Departments and independent agencies, which are generally divided into suborganizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, services, and corporations. Many of these are further divided into even smaller suborganizations. On the other hand, there are small agencies for which division into smaller units is generally not considered appropriate.

### Budget Perspective

13. From another perspective, the government is composed of accounts presented in the budget, hereinafter referred to as **budget accounts**. Budget accounts are composed of expenditure (appropriations or fund) accounts and receipt (including offsetting receipt) accounts. The size and scope of these accounts varies according to Congressional preference. They can vary from very small accounts, which are useful for constraining management, to very large accounts, which can be used to finance many activities.

14. Budget accounts are not the same as Treasury accounts. The latter are accounts established in the Treasury to, among other purposes, record the appropriations and other budgetary resources provided by statutes and the transactions affecting those accounts. For the most part, budget accounts are aggregations of Treasury accounts. Also, Treasury accounts include deposit accounts as well as budget accounts.

15. Nor are budget accounts the same as the uniform ledger accounts established by the U.S. Government Standard General Ledger (SGL). SGL accounts record specific homogeneous types of transactions and balances that aggregate to specific classifications on the financial statements. They have been established so that agencies can establish control over their financial transactions and balances, meet the basic financial reporting requirements, and integrate budgetary and financial accounting in the same general ledger.

16. A budget account may coincide with an organization or one or more of its suborganizations. Other times, several budget accounts need to be aggregated to constitute an organization or sub-organization.

17. Budget accounts are classified as federal funds or trust funds. Any account that is designated by the laws governing the federal budget as being a trust fund is so classified. Federal funds comprise the larger group and include all transactions not classified by law as trust funds. Three components make up federal funds: the general fund, special funds, and revolving funds. The definition of each of these categories can be found in the OMB circular A-11 and the GAO Glossary of Terms Used in the Federal Budget Process.

18. Care must be taken in determining the nature of all trust funds and their relationship to the entity responsible for them. A few trust funds are truly fiduciary in nature. Most trust funds included in the budget are not of a fiduciary nature and are used in federal financing in a way that differs from the common understanding of trust funds outside the federal government. In many ways, these trust funds can be similar to revolving or special funds in that their spending is financed by earmarked collections.

19. In customary usage, the term “trust fund” refers to money belonging to one party held “in trust” by another party operating as a fiduciary. The money in a trust fund must be used in accordance with the trust’s terms, which the trustee cannot unilaterally modify, and is maintained

separately and not commingled with the trustee's own funds. This is not the case for most federal trust funds that are included in the budget--the fiduciary relationship usually does not exist. The beneficiaries do not own the funds and the terms in the law that created the trust fund can be unilaterally altered by Congress.

20. Special funds and trust funds, except trust revolving funds, are aggregates of budget accounts. They normally consist of one or more receipt accounts and one or more expenditure accounts. Among the trust funds, social insurance programs (such as social security and unemployment compensation) have the largest amount of funds and federal employee programs (such as retirement and health benefits) the second largest. Together they make up about 90 percent of all trust fund receipts. Other trust funds include excise tax financed programs for highway construction, airports and airway operations, and other public works. Like other budget accounts, trust funds are usually the responsibility of a single organization, although sometimes they are the responsibility of more than one organization.

21. Budget accounts are also categorized, as mandated by law and defined by OMB, into functions and subfunctions that represent national needs of continuing national importance and substantial expenditures of resources. Examples of functions are national defense and health.

## Program Perspective

22. From a third perspective, the government is composed of **programs and activities**, i.e., the services the organizations provide and the specific lines of work they perform. Each program and activity is responsible for producing certain outputs in order to achieve desired outcomes.

23. There is no firm definition for the term "program;" it varies in the eye of the beholder. For example, the Highway program could relate to the entire Federal highway program, the program to build interstate highways (in contrast to city streets, secondary roads, etc.), or a program to build a highway between two specific points. Moreover, in accordance with the sequester provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the House and Senate Appropriations Subcommittees annually define, in the Committee Reports, the meaning of "Programs, Projects, and Activities" as they relate to each of the Appropriations Acts.

24. The term “program” is also often used interchangeably with the terms “function” and “sub-function” (see paragraph 21). Generally, however, the term “function” would be used only for the functions defined in the budget. Otherwise, the term “program” would be used.

## Intertwining Of The Perspectives

25. The programs are administered by the organizations and financed by the budget accounts. In a few instances, there is a one-to-one relationship among the three perspectives. A single budget account finances a single program and organization. Thus, the program is carried out only by the single organization and the organization performs only one program.

26. However, most programs are financed by more than one budget account, some of which might not be under the control of the organizational unit administering the program. Some programs are even administered by more than one organization. Likewise, a single organization or budget account could be responsible for several programs. In some instances, a program could also be considered an organizational unit, e.g., the Center for Disease Control and Prevention.

27. Furthermore, some of the support necessary to perform a program is frequently provided by other organizations and/or financed by other budget accounts. Examples are the computer support for a program that is obtained from a central unit within the department, or retirement health costs for a program’s current and former employees.

28. This complex situation is the result of the evolution of Federal organizations, programs, and budgetary structures over many years. As Federal missions and programs have expanded and changed, new departments have been created, new organizations have been added to existing departments, and new duties have been assigned to existing organizations on the basis of various considerations. Similarly, the budget structure has evolved in response to the needs of the Congress; its committees and subcommittees; and various initiatives by the President, program managers, and interest groups.

## Identifying The Reporting Entities For General Purpose Financial Reporting

29. As stated, reporting entities are entities that issue general purpose financial statements to communicate financial and related information about the entity. For any entity to be a reporting entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.

    - There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
    - The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
    - There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

30. Budget accounts, in and of themselves, do not meet the criteria in the preceding paragraph and, therefore, would not be considered a reporting entity for the purposes of issuing general purpose financial statements. Also, the size and scope of the budget accounts across all government agencies lack sufficient consistency for them to be universally considered as the reporting entity. Similarly, programs generally do not meet the criteria in paragraph 29 and, therefore, would not be a considered a reporting entity that prepares general purpose financial statements.

31. On the other hand, organizations, and particularly larger organizations, meet the criteria in paragraph 29. While the occasional overlap of programs and budget accounts among more than one organizational unit could complicate financial reporting, the association of data with the responsibility centers, revenue centers, profit centers, cost centers, etc. which managers typically use for organizing and operating permit the following:

    - aggregating information for not only the organization (and suborganizations), but also for one or more of the programs performed by the organization, and one or more of the budget accounts for which the organization is responsible, and

- the subsequent arraying of the information not only by organization, but also by sub-organization, program, and/or budget accounts.

32. This approach to defining the appropriate reporting entities in the Federal Government supports establishment of accountability in the organizations (and suborganizations) while still enabling them to provide information pertaining to their programs.

33. Although a reporting entity might not control all the budget accounts used to finance one or more of the programs it administers, any revenues attributable to or costs incurred on behalf of the programs it administers should be associated with that reporting entity. This notion holds true regardless of whether the reporting entity maintains personnel on a payroll.

34. The departments and major independent agencies are organizational units and therefore would be the primary reporting entities. However, in many instances, financial statements that present aggregations of information into suborganization entities, i.e., bureaus, administrations, or agencies, may be more useful than statements that present only aggregations into organizational entities. The former can provide a better understanding of the financial results and status of the many individual suborganizations and programs constituting a department or major independent agency. They can reveal instances where programs are carried out by several suborganizations within the department or major independent agency.

35. Similar to other budget accounts, trust funds, special funds, and revolving funds are usually administered by a single organization. For financial reporting purposes, the organization would be the reporting entity; the trust fund or revolving fund would be a component of the organization that administers the fund in the same manner that a suborganization or other type of budget account is a component of the organization. This would not preclude separate reporting for the trust fund, special fund, or revolving fund by the managing organization, nor would it preclude disclosure of trust fund, special fund, or revolving

fund information within the organization's report when there is sufficient interest.[3]

36. Likewise, some programs are coterminous, i.e., share the same boundaries, with an organization or sub-organization, while other programs—such as student loan programs—are the component for which resources are deployed, are responsible for achieving objectives, and/or are of great interest to outsiders. In both instances, the financial operations and results of the program might warrant highlighting or even separate reporting by the organization or suborganization which manages the program.

37. Financial statements for organizationally-based reporting entities may be audited and issued to external parties, unaudited and used for internal management purposes, or, perhaps to be more relevant and meaningful, combined with financial statements from other organizationally-based reporting entities.

38. The ultimate aggregation of entities is into the entire Federal Government which, in reality, is the only independent economic entity—although some would say the entire country is the ultimate economic entity. The Federal Government entity would encompass all of the resources and responsibilities existing within the component entities, whether they are part of the Executive, Legislative, or Judicial branches (although, as noted in paragraph 5, FASAB's recommendations pertain only to the Executive Branch). 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 government (see paragraphs 39 through 50) are such that their

[3]For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenues would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund will report all assets, liabilities, revenues, and expense of the fund, notwithstanding the fact that another entity has custodial responsibility for the assets. In the case of multiple responsible entities, if the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of SFFAS 27, *Identifying and Reporting Earmarked Funds*. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.

exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

## Criteria For Including Components In A Reporting Entity

39. Regardless of whether a reporting entity is the U.S. Federal Government, or an organization, suborganization, or program, there can be uncertainty as to what should be included and inconsistency as to what is included in the reporting entity. The identification and application of specified criteria can reduce this uncertainty and inconsistency.

40. The Governmental Accounting Standards Board (GASB) has established criteria for what would be included in a state or local government reporting entity. These criteria relate to financial accountability, which includes appointment of a voting majority of the organization's governing board, together with imposition of will, and financial benefit to or burden on a primary government. These criteria, while in part relevant, must be tailored to the Federal Government environment. First, there are not as many different types of entities in the Federal Government as there are in state and local governments. Second, the Congress and others with oversight authority frequently establish explicit rules for what to include as part of a Federal reporting entity. Finally, as indicated, with the exception of the Federal Government as a whole, all the reporting units are components of a larger entity, namely the Federal Government, rather than independent economic entities.

### Conclusive Criterion

41. There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a **conclusive criterion**, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.

42. Appearance in the Federal budget section currently entitled "Federal Programs by Agency and Account" is a conclusive criterion. Any organization, program, or budget account, including off-budget accounts and government corporations, included in that section should be considered part of the U.S. Federal Government, as well as part of the organization with which it appears. 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.

## Indicative Criteria

43. There are instances when, for political or other reasons, an organization (including a government corporation), program, or account is not listed in the "Federal Programs by Agency and Account," yet the general purpose financial statements would be misleading or incomplete—in regard to the objectives for Federal financial reporting—if the organization, program, or account were not included therein. These organizations, programs, or accounts would normally be considered to be operating at the "margin" of what would be considered a governmental function in contrast to providing a more basic governmental function. Thus, in addition to the conclusive criterion, there are several **indicative criteria** that should be considered in the aggregate for defining a financial reporting entity in the Federal Government. No single indicative criterion is a conclusive criterion in the manner that appearance in the "Federal Programs by Agency and Account" section of the budget is. Nor can weights be assigned to the indicative criteria. Thus, while the indicative criteria are presented in descending order of importance, judgment must be based on a consideration of all of the indicative criteria.

44. The indicative criteria for determining whether an organization not listed in the "Federal Programs by Agency and Account" section of the budget is nevertheless part of a financial reporting entity are as follows:

- It exercises any sovereign power of the government to carry out Federal functions. Evidence of sovereign powers are the power to collect compulsory payments, e.g., taxes, fines, or other compulsory assessments; use police powers; conduct negotiations involving the interests of the United States with other nations; or borrow funds for Government use.
- It is owned by the Federal Government, particularly if the ownership is of the organization and not just the property. Ownership is also established by considering who is at risk if the organization fails, or identifying for whom the organization's employees work.
- It is subject to the direct or continuing administrative control of the reporting entity, as revealed by such features as (1) the ability to select or remove the governing authority or the ability to designate management, particularly if there is to be a significant

continuing relationship with the governing authority or management with respect to carrying out important public functions (in contrast to selections and designations in which there is little continuing communication with, or accountability to, the appointing official); (2) authority to review and modify or approve budget requests, budgetary adjustments, or amendments or rate or fee changes; (3) ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations; (4) authority to sign contracts as the contracting authority; (5) approval of hiring, reassignment, and removal of key personnel; (6) title to, ability to transfer title to, and/or exercise control over facilities and property; and (7) right to require audits that do more than just support the granting of contracts. (While many of these criteria exist in a client-contractor relationship, it is not necessarily intended that an entity's contractor be considered as part of the reporting entity.)

- It carries out Federal missions and objectives.
- It determines the outcome or disposition of matters affecting the recipients of services that the Federal Government provides.
- It has a fiduciary relationship with a reporting entity, as indicated by such factors as the ability of a reporting entity to commit the other entity financially or control the collection and disbursement of funds; and other manifestations of financial interdependency, such as a reporting entity's responsibility for financing deficits, entitlement to surpluses (although not necessarily the assets acquired from failed units), or the guarantee of or "moral responsibility" for debt or other obligations.

45. The entity 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 is more than fleeting.

46. In applying the indicative criteria, the materiality of the entities and their relationship with one another should be considered. Materiality should not be measured solely in dollars. Potential embarrassment to any of the entities' stakeholders should also be considered. Thus, a bias toward expansiveness and comprehensiveness would be justified, particularly if it could contribute to maintenance of fiscal control.[4]

[4]Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.

## Federal Reserve System

47. In establishing and monitoring monetary policy, the Federal Reserve System, i.e., the Board of Governors of the Federal Reserve System and the Federal Reserve Banks, could be considered as functioning consistent with the indicative criteria presented in paragraph 44. However, in the United States, the organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity. Payments made to or collections received from the Federal Reserve System would be reported in the financial statements of the Federal Government. Certain other disclosures might also be appropriate in the financial statement for the entire government.

## Government Sponsored Enterprises

48. There are also several Federally chartered but privately owned and operated financial institutions that have been established as financial intermediaries to facilitate the flow of investment funds to specific segments of the private sector. These entities are called government sponsored enterprises (GSE). Examples are the Federal National Mortgage Association, the Farm Credit Banks, and the Federal Home Loan Banks. By law, each of these GSEs is subject to oversight from a specific Federal agency. However, they are not included in the Federal budget section entitled "Federal Programs by Agency and Account." Nor, as currently constituted, do they function in a manner consistent with the indicative criteria presented in paragraph 44. Thus they would not be considered part of the government-wide reporting entity nor the reporting entity to which they have been assigned for oversight.

49. On the other hand, there are "political expectations" associated with the GSEs, the most significant of which is an expectation that legislation would be enacted to support a GSE experiencing severe financial difficulties. (Political expectations are different than "moral obligations" established by many states. There is no statutory authority that defines whether and how a political expectation would be met. With a moral obligation, the manner in which it may be met is usually explicitly defined in statute.) Therefore, agencies assigned oversight responsibility for a GSE(s) would need to consider making disclosures of the government's relationship with the GSE(s) and

other information that would provide an understanding of the possibility of a contingent liability.[5]

## Bailout Entities

50. The Federal Government occasionally bails out, i.e., guarantees or pays debt, for a privately owned entity whose failure could have an adverse impact on the nation's economy, commerce, national security, etc. As a condition of the bail out, the Federal Government frequently obtains rights similar to the authorities associated with the indicative criteria presented in paragraph 44. The existence of these rights does not make the bailed out entity part of the Federal Government reporting entity or any of the other reporting entities that are part of the Federal Government. Disclosure of the relationship(s) with the bailed out entity(ies) and any actual or potential material costs or liabilities would be appropriate.

## Other Aspects Concerning The Completeness Of The Entity

51. The application of specified criteria to delineate 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 the parameters explained in paragraphs 52 and 53, 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

[5]The term government sponsored enterprise is also sometimes used in a broader manner to encompass other entities established by the Federal Government to further a public policy and that are also not included in the budget section "Federal Programs by Agency and Account." Examples are the Financing Corporation, Resolution Funding Corporation, Amtrak, and even, on occasion, the American National Red Cross. These entities have varied characteristics and different types of relationships to the Federal Government, and therefore, in some cases, may be included with the above mentioned GSEs in sections or tables of Federal budget documents. These entities need to be judged individually with respect to the indicative criteria presented in paragraph 39 in order to determine whether they should be considered part of a Federal reporting entity.

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.

52. A process in which the reporting entity is billed and pays for the amounts attributable to its activities is normally the most desirable approach for recording and reporting these amounts. However, when this type of direct debiting or crediting is not done, the decision as to whether to capture and report attributable amounts would be based on such criteria as the magnitude of the attributable amounts, the decision usefulness of the information to its likely users, the costs of capturing the data, whether a decision would be made differently as a result of having the information, and whether the information would have a policy impact.[6]

53. It might be appropriate to consider the interest expense inherent in devoting a sum of capital to an organization or program as part of the total costs incurred in operating the organization or performing the program. This principle has already been adopted for the accounting for loans and loan guarantees, whereby a loan program is charged for the cost of capital provided by the U.S. Treasury.[7]

## Displaying Financial Information

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements,

[6]The Board is developing a Statement of Managerial Cost Accounting Concepts and Standards. This document, when finalized, will address recognition of these amounts.

[7]The Board has decided to undertake a project addressing the types of capital for which it might be appropriate for a reporting entity to disclose the costs, the reasons thereof, and the manner in which to determine and report these costs. A determination of the appropriateness of considering interest expense as part of the costs incurred by an organization or program will be made by that project.

either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.

55a. To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always audited by Inspectors General, independent accounting firms, or the Government Accountability Office. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS). When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for fair presentation in conformity with GAAP. However, RSI and OAI are unaudited, but subject to certain procedures specified by GAGAS for RSI and OAI, respectively. To assist users in analyzing the different types of information within financial reports, these differences must be conveyed and can be accomplished in a variety of ways. The traditional approach is to separate the categories of information. However, the categories may be commingled if the RSI and OAI are clearly labeled as "unaudited" or distinguished in a manner that informs the reader of the level of assurance provided.

55b. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to73G.

56. In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each of the reporting objectives can be met to a certain

degree by the statements prepared by or for one type of reporting entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. For example, the objective of budgetary integrity can be best met with the program and financing schedules prepared for individual budget accounts. The objective of operating performance can be best met with financial statements from organizations/suborganizations and programs (although financial statements at this level can also help readers evaluate the reporting entity's budgetary integrity). The objective of stewardship can be best met with a financial statement for the entire government. Meeting the financial reporting objectives in their totality requires financial statements from all of the types of reporting entities.

## Stock Statements

57. The financial reporting objectives are also met with different types of financial statements. A financial statement that presents financial information for an entity as of a particular point in time, however the information is measured, i.e., budgetary, cash, or accrual, is often characterized as a stock statement. An example of a stock statement is a **balance sheet**. It presents the total balances of assets, liabilities, and net position of an organization as of a specific time.

## Flow Statements

58. Another type of financial statement provides information on an entity's flows of revenues, receipts, expenditures, expenses, gains, losses, and/or other changes of the entity's net resources during a period, however they are measured, i.e., budgetary, cash, or accrual. This type of financial statement is frequently characterized as a flow statement. The traditional flow statement is a statement of operations and changes in net position issued by private sector, profit seeking organizations. It presents the results of an entity's operations for a reporting period, including the changes in the entity's net position from the end of the prior reporting period. This type of statement is particularly useful for private sector, profit seeking organizations since their objective is to generate earnings and returns on investment. The statement of operations and changes in net position presents the revenues the entity receives, the expenses incurred to generate the revenues, the amount left for the entity's owners, and the resulting effect on the owners' equity.

59. The Federal Government and most of the other reporting entities in the Federal Government are spending entities whose objective is to

provide services, some of which are financed by revenues received from the recipients of the service, and some of which, if not all or most of which, are financed by taxes and other unearned revenues.[8] Thus, the most useful information a flow statement could present is the total and net costs of the services, i.e., how much of the services provided by the entity was financed by the taxpayers. This type of statement, which would be a **statement of net costs**, would support the achievement of Federal financial reporting objective 2A. Objective 2A states that "Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes, in these costs."

60. As indicated, revenues provided in exchange for the services, i.e., earned revenues, are not the only manner in which a Federal Government entity finances the services it provides. Other sources of financing are the appropriations received from the Congress, and such various non-exchange revenues as fines, donations, and transfers from other agencies. Therefore, another useful flow statement would be a **statement of changes in net position** that presents the manner in which the entity's net costs were financed and the resulting effect on the entity's net position. This also would be consistent with Federal financial reporting objective 2: "Federal financial reporting should assist report users in evaluating. . .the manner in which these efforts and accomplishments have been financed...."

61. The collection of the major sources of funds for the appropriations, e.g., taxes, royalty payments, and fines, is the responsibility of just a few reporting entities, especially the Internal Revenue Service, the Customs Service, and the Minerals Management Service. These entities are functioning in a custodial capacity and are required to turn the taxes or other monies they collect over to the Treasury or other organizations. The results of these entities' custodial activities could be reported in a flow statement that provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed. This would be called a **statement of custodial activities**.

[8]The Board is currently developing an Exposure Draft entitled *"Revenue and Other Financing Sources"* which addresses more fully the types of revenues (i.e., exchange versus non-exchange and earned versus unearned revenues) discussed here.

62. For many reporting entities, and particularly those engaged in reimbursable activities, it is useful to have an understanding of the sources and amounts of cash provided to the entity for operating, investing, and financing purposes and the major purposes for which the cash was used. This type of information can be displayed with a statement of cash flows, in accompanying footnotes, or as supplemental financial and management information.

## Budget Statement

63. Meeting the first objective of SFFAC No. 1, "Objectives of Federal Financial Reporting," namely the budgetary integrity objective, necessitates that the reader receive assurance that

- the amounts obligated or spent did not exceed the available budget authority,
- obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,
- other legal requirements pertaining to the account have been met, and
- the amounts are properly classified and accurately reported.

64. This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information could be accomplished by including a **statement of budgetary resources** in the reporting entity's financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)

## Reconciliation Statement--Budgetary And Financial Accounting

64A. Subobjective 1C of the budgetary integrity objective states that information is needed to help the reader to determine "how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities." This objective arises because accrual-based expense measures used in financial statements differ from the obligation-based measures used in the budgetary reports.

64B. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a **Statement of Financing** that reconciles the budgetary resources obligated for a federal entity's programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

## Performance Measures Statement

65. The second objective of Federal financial reporting states, in part, that Federal financial reporting should provide information that helps readers of the financial reports determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs. This suggests that a **statement of program performance measures**,[9] i.e., one or more statements presenting service efforts and accomplishments measures for each of a reporting entity's significant programs, is necessary.

66. The Federal Government is increasing its interest in measuring and reporting program performance, as evidenced by the enactment of the Government Performance and Results Act and increasing emphasis during budget reviews on program performance. Moreover, the ability to seek and obtain maximum return from increasingly limited resources can be enhanced by an understanding of the results of the programs for which budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide

[9]The Board does not consider the Statement of Program Performance Measures to be a basic financial statement.

services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.

67. For a statement of program performance measures prepared by an organization-level reporting entity, the outputs and outcomes would be related to the performance of the entity itself and its own programs, e.g., clients vaccinated, illnesses prevented. For the government-wide report, broader measures of outcomes and impacts that depended on the joint efforts of several reporting entities would be appropriate, e.g., state of the economy, national security, environment, personal health, social welfare, although some narrower outcome measures might also be included.

## Other Information

68. Financial information is also conveyed with **accompanying footnotes**, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

69. It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis** or **overview** of the reporting entity.

70. The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the

government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.[10] This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions.

71. The information pertaining to the aforementioned investments, certain types of property, plant, and equipment,[11] and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental information** rather than attempting to include it in financial statements.[12]

72. [Rescinded per SFFAC 6.]

73. The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion

[10]A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained in paragraphs 134 to 145 of Statement of Federal Financial Accounting Concepts No. 1, *"Objectives of Federal Financial Reporting."*

[11][Text rescinded per SFFAC 6.]

[12][Text rescinded per SFFAC 6.]

could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

## Distinguishing Basic Information, RSI, and OAI

### Determining Required Information

73A. Selecting a category for communicating information may involve a process that begins with determining what information should be required. Required information is information that consists of basic information and RSI. An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).

### Determining Basic Information versus RSI

73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core[12.1] of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.

73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.

[12.1]The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

73D. The Board specifies what information should be presented as basic information and what information should be presented as RSI. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI on page 107. The factors are not listed in a particular order and some may convey similar ideas. In addition, different Board members may assign different weight to each factor. Thus, the factors provide a general framework for each Board member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

73E. For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation, it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated. The rationales for some of the other factors that members may consider are:

a. Use of various types of financial data or financial transaction data. Members may deliberate the nature of the data used or the type of system used to process the information. Financial data used or data derived from a system for processing financial transactions, may be more likely to be considered basic information.

b. Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. By designating an item as basic information rather than RSI, the Board can have some bearing on the level of importance conveyed in the financial report and auditor's report. In other words, users may pay less attention to items categorized as "supplementary" in the financial report. Conversely, they may be more concerned with the auditor's conclusions regarding the fair presentation of the financial statements. Hence, the more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, such that if the item is missing or

materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.

c. The extent to which the information interests a wide audience (rather than specialists). If an item of information is of great interest to users, the information may be a candidate for basic information. Conversely, if the item is primarily of interest to subject matter specialists, the information may accompany the basic information as RSI.

d. Extent to which there are not alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.

e. Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for the expression of an opinion. The item of information may be a candidate for RSI.

f. Experience among users, preparers, and auditors with the information. The Board may consider the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Also, when there is not sufficient experience to develop measurement criteria, auditors may have concerns about expressing an opinion on the information. They may express qualifications or include explanations in their report. Categorizing the information as RSI may encourage reporting while more experience is gained and criteria developed.

g. Benefit/cost ratio of using resources to compile the information as well as ensure accuracy. The Board may consider the benefit and cost associated with producing and auditing the item of information.

## OAI

73F. If an item of information does not meet the criteria for basic information or RSI, it becomes a candidate for OAI. OAI is information that accompanies basic information and RSI, but is not required by a body that establishes GAAP. Some entities may desire to report information to supplement required information and enhance a user's understanding of the entity's operations or financial condition. This may include, but is not limited to, information on delivery times, turnover, and wastage of inventories; expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. In addition, entities report information not required by a body that establishes GAAP, but required by laws or administrative directives. The laws or administrative directives may require the information to be audited and may require it to accompany basic information and RSI. However, this information is also considered OAI.

73G. Although the FASAB does not require OAI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, the FASAB may consider an item to be relevant to entity operations but, for the moment, does not meet other criteria for required information.

**Table 1: Factors to Consider in Distinguishing Basic Information from RSI***

| FACTORS TO CONSIDER IN DISTINGUISHING BASIC INFORMATION FROM RSI | | |
|---|---|---|
| **Low (implies RSI)** | **Factor** | **High (implies Basic)** |
| | <Relevance to fair presentation> | |
| | <Connection with elements of financial reporting> | |
| | <Use of various types of financial data or financial transaction data> | |
| | <Level of importance the Board wishes to be communicated in the financial report> | |
| | <Significance, relevance, or importance of the item in light of *Objectives*> | |
| | < Level of importance the Board wishes to be communicated in the auditor's report> | |
| | <Relevance to measuring financial condition or changes in financial condition> | |
| | <Extent to which the information interests a wide audience (rather than specialists)> | |
| | <Extent to which there are not alternative sources of reliable information> | |
| | <Agreement on criteria that permit comparable and consistent reporting> | |
| | <Experience among users, preparers, and auditors with the information> | |
| | <Benefit/cost ratio of using resources to compile the information as well as ensure accuracy> | |
| | <Connection with basic financial statements> | |
| | <Reliability and/or precision possible> | |
| | <Reliability and/or precision needed> | |

*As noted in paragraph 73D, the factors are not listed in a particular order and do not represent a hierarchy of factors.

## Financial Reporting For An Organizational Entity

74. Meeting the four objectives of Federal financial reporting in the most efficient manner suggests that reporting entities issue a financial report that would include the following:

- management's discussion and analysis;
- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;

- statement of financing;[12.2]
- statement of program performance measures;[13]
- accompanying footnotes;
- required supplementary information ; and
- other accompanying information.

75. With some organizations, and even suborganizations, the activities of one or more programs or other components are as important to the readers of the financial statements as are the activities of the entity as a whole. This would be particularly true for a Department composed of many bureaus, administrations, agencies, services, etc., and particularly if their programs are dissimilar. In those instances, consideration should be given to the preferability of reporting the assets, liabilities, revenues, expenses, etc. of both the significant components individually and of the entity in its entirety. Hence, larger organizations, and particularly those composed of many bureaus, administrations, agencies, etc., would prepare not only consolidated financial statements for the organizational entity, but also provide information pertaining to their individual significant components.[14] The information for the individual components could be provided with separate columns in consolidating financial statements[15] (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate

[12.2]The Statement of Financing may be presented as a financial statement or as a schedule in the notes to the financial statements. The OMB will provide guidance regarding details of how the information will be displayed.

[13]The statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.

[14]Such components are similar to responsibility segments as referred to in SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, par. 78-81. Responsibility segments are used to accumulate costs and outputs for major lines of activity.

[15]A **consolidated financial statement** presents the transactions and balances for a reporting entity's components in a single column. In arriving at the consolidated amounts, the transactions and balances among the entities are eliminated. A **consolidating financial statement** presents the information for the reporting entity's components as well as the consolidated amounts in individual columns. The elimination of the inter-entity transactions and balances needed to arrive at the consolidated amounts might or might not be presented in a separate column.

column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.

76. Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., tax collection activity; maintains large and complex fund flow activity; has earmarked tax activity; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.[16] In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.

77. The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances.[17]

78. Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than FASAB's, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the

[16]Sub-organizations required by statute to prepare and issue a separate financial statement would, by definition, also need to do so.

[17][Rescinded by SFFAC 6.]

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 issued by FASAB should be applied. The components would need to provide any additional disclosures required by FASAB and included in the OMB-issued guidance that would not be required by the other standards.

## Financial Reporting For The Entire Government

79. In addition to budgetary integrity, operating performance, and systems and control information, readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

- management's discussion and analysis;
- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of operations and changes in net position;
- reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
- statement of changes in cash balance from unified budget and other activities;
- comparison of budgeted and actual use of resources;
- statement of program performance measures;
- accompanying footnotes;
- required supplementary information; and
- other accompanying information.

80. The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.

81. [Rescinded by SFFAC 6.]

82. The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

83. Because the government is a complete and integral economic entity, in contrast to the departments and major agencies whose components frequently have nothing in common other than belonging to the same department, it would be appropriate that the financial statement for the entire government be a consolidated financial statement. However, it might also be appropriate to display selected information for the components, funds, etc., either within the consolidated financial statement, in accompanying footnotes, and/or as supplemental information.

## Recommended Contents For The Recommended Displays

### Balance Sheet

84. The elements most likely to be presented in the balance sheet of a Federal suborganization/organization, program, or the entire government would be as follows:

- **Fund Balance with Treasury**. This represents the amount in the entity's accounts with the U.S. Treasury that is available only for the purposes for which the funds were appropriated. It may also include balances held by the entity in the capacity of a banker or agent for others. However, Fund Balance with Treasury (FBWT) meeting the definition of fiduciary FBWT should not be recognized on the balance sheet, but should be disclosed in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.
- **Cash and other monetary assets**. Cash consists of coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.
- **Investments**. While Federal agencies have the authority to invest, they are typically limited to investing in securities issued by the Department of the Treasury or other Federal entities. There could be instances, however, when an agency owns property or securities issued by state or local governments,

private corporations, or government sponsored enterprises, primarily for the purpose of obtaining a monetary return.

- **Receivables**. These are the amounts that the entity claims for payment from others. Receivables can result from such activities as the sales of goods or services, the non-payment of taxes, the making of loans or loans assumed from defaults on previously made loan guarantees, the earning of interest, the advance or prepayment of monies, etc.
- **Inventories and related properties**. Inventories consist of tangible personal property held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee. Related properties that could be owned by a Federal program, suborganization or organization, or the entire government include operating materials and supplies, stockpile materials, seized property, forfeited property, and goods held under price support and stabilization programs.
- **Property, plant, and equipment**. Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. Some PP&E are held by the Federal Government but not used to provide a service. They are in themselves a service. Examples are heritage assets such as monuments and museum collections; the service is the sense of tradition, understanding, and pride visitors receive visiting these sites. Information pertaining to these assets would not necessarily be displayed in the balance sheet, but rather as required supplemental information.[18]
- **Liabilities**. These are the amounts the reporting entity owes to others for goods or services received, progress in contract performance, defaulted guarantees, funds held as deposits etc. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. Also, because the Federal Government is a sovereign entity, it can abrogate at any time many of its liabilities arising

[18]The Board issued an Exposure Draft, *Accounting for Property, Plant, and Equipment* (PP&E ED), on February 28, 1995 addressing those items of PP&E that would be reported on the balance sheet. The PP&E ED also proposes definitions for categories of PP&E that would not be reported on the balance sheet. In a separate ED, the Board will address other means of reporting on the non-balance sheet categories--possibly including separate basic financial statements and required supplemental information.

from other than contracts. This does not, however, eliminate the existence of, and therefore the need to report, liabilities incurred by the reporting entity.

- **Net position**. Net position is the residual difference between assets and liabilities. It is generally composed of unexpended appropriations and the cumulative results of operations. Included in the former would be appropriations not yet obligated or expended, including undelivered orders. Included in the latter would be the amounts accumulated over the years by the entity from its financing sources less its expenses and losses, which would include donated capital and transfers in the net investment of the Government in the reporting entity's assets; and an amount representing the entity's liabilities for such things as accrued leave, credit reform subsidies, and actuarial liabilities not covered by available budgetary resources.

85. Assets the reporting entity holds and has the authority to use in its operations should be displayed separately from assets the entity holds but does not have the authority to use. Likewise, liabilities for which budgetary authority has been received for liquidating the liabilities should be displayed separately from liabilities for which budget authority has not been received (even if the authority is expected). Assets and liabilities arising from transactions among Federal entities should be displayed separately from assets and liabilities arising from transactions with non-Federal entities.

## Statement Of Net Costs

86. The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.

87. The costs can be classified in a reporting entity's statement of net costs by sub-organization (assuming the reporting entity is an organization), by program, or by object class, or any combination thereof. Object class, also referred to as a "natural" classification,

represents the nature or types of goods or services acquired without regard to the organization involved or the program for which they were used. Reporting of the sub-organization incurring the costs and/or the purposes for which the costs were incurred generally provides more useful information than reporting on the types of goods or services acquired.

88. The statement of net costs should also present the revenues earned by each program and organization. The manner in which the earned revenues would be presented would depend on the purpose of the program and the reasons why the revenues are present.

89. Some programs are established with generation of revenue as a primary consideration or purpose. One example would be when the goods or services provided by the organization are also available from the private sector and not charging a fee for the goods or services would be unfair competition. Another example would be when it is deemed appropriate that the persons or organizations receiving the goods or service pay for the goods or services, usually to be able to ascertain the true cost of the activity using the goods or services, e.g., the Defense Business Operations Fund, Postal Service. Still another example is when revenues are imposed to limit the unnecessary consumption of the goods or services. In each of these instances, the revenues earned by the program(s) should be considered a deduction from the total costs of the program(s).

90. With other programs, the revenues are generated from administering an inherently governmental service, which means the revenues are not a primary consideration for the program. Rather, the revenues are a means to recover all or most of the costs of administering the program, e.g., the Securities and Exchange Commission. In those instances, the revenues should be considered a deduction from the total costs of the organization, not the program.

91. In still other instances, an organization's revenues can be generated by providing a specific program, but the revenues are not a primary consideration in the conduct of the program; they are incidental to the purpose of the program, e.g., the sale of maps by the Geological Survey. In those instances, it would be appropriate to consider the earned revenues as a deduction from the incremental costs that need to be incurred in order to provide the goods or services that generate the incidental revenues, to the extent that the incremental costs are

measurable and relevant to decision making. Otherwise the revenues should be considered a deduction from the program's or organization's total costs.

92. Earned revenues that are insignificant in amount can be netted into the costs of the programs with the amounts disclosed in accompanying footnotes, if appropriate.

93. An organization or sub-organization could receive different types of revenues for different purposes and/or reasons. Each of the revenues and associated costs would be displayed in accordance with the concepts presented in paragraphs 89 through 92.

94. The costs associated with and displayed for each program should reflect costs that can be directly traced to the program, assigned to the program based on cause and effect, or allocated to the program on a reasonable and consistent basis, consistent with the premise that any costs reported for a program should be controllable by the program to at least some degree. Those costs that are not directly traceable, assignable, or allocable could be considered program or management support costs that are incurred by the reporting organization or another organization to administer the reporting organization's or program's activities. For example, in a reporting entity that provides social services, the program costs would be the cash payments and the salary and other costs, e.g., rent, supplies, directly associated with persons providing counseling to the recipients of the cash payments. The organizational support costs would be the costs of the organizational structure required to administer the organization, i.e., not directly attributable to the programs provided by the organization.

95. Organizational and program management costs are necessary costs of operating an organization and programs. Not displaying these costs because of a belief that an allocation for these activities would be eliminated or reduced in order to obtain a reduction of the cost of the entire organization or program is illogical. The alternative concept, which is burying the management costs with the program costs, increases the likelihood that the management activity will be subject to reductions imposed on the program delivery activities. Separately identifying the management costs enables the use of resources for these activities to be justified on their own merit. The costs for managing the organization and/or program can therefore be displayed on the face of the financial statements or in accompanying footnotes,

particularly when it would assist in evaluating operating performance and is cost-effective. Disclosure of what the support costs entail would be appropriate.

96. The total costs displayed in a reporting entity's financial statements should be the same as the total costs recorded by an organization in its cost accounting system. If, for financial reporting purposes, the organization does not allocate organizational management costs among the programs, the total costs displayed for any one program in the entity's financial statements could be different than the costs recorded for that program in the cost accounting system.

97. Other earned revenues would include revenues not attributable to a specific program.

98. Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities.

99. The decision as to how to display total program costs, earned revenues, net program costs, and organizational and program management costs should be based, in part, on a consideration of what the Congress, management, and others might want to know about the costs of providing an organization's programs.

## Statement Of Changes In Net Position

100. The appropriate elements for a statement of changes in net position would be as follows:

- **Net costs** display the amount that had to be financed by other than earned revenues.
- **Appropriations used** represent the amount of budget authority, including transferred budget authority, used by the organization to finance its operations.
- **Non-exchange revenues** include dedicated taxes, fines, and other revenues the Government is able to obtain due to its sovereign powers.
- **Donations** are monies and materials given by private persons and organizations to the Government without receiving anything in exchange.

- **Transfers in** are amounts of cash or other capitalized assets received by one Government entity from another Government entity without reimbursement.
- **Transfers out** are amounts of cash or other capitalized assets provided by one Government entity to another without reimbursement.
- **Imputed financing sources** are of two types: amounts equal to the costs that have been incurred by the reporting entity but financed by another entity, e.g., retirement costs; and amounts representing costs that are attributable to the reporting entity's activities but that do not require a direct out-of-pocket payment, e.g., the interest costs associated with carrying inventory or investing in physical assets.[19]
- **Prior period adjustments** are corrections of prior period results of operations.
- **Increase (decrease) in unexpended appropriations** is the change in appropriated capital, including transferred budgetary resources, that does not affect the net cost of operations but does affect net position.
- **Net position-beginning of the period** is the total unexpended appropriations and cumulative results of operations held by the entity at the beginning of the reporting period.
- **Net position-end of the period** results from adding and netting the various amounts associated with the operations of the entity during the reporting period, including the net position-beginning of the period and any prior period adjustments. The amount will thus equal the total unexpended appropriations and cumulative results of operations held by the entity at the end of the period.

## Statement Of Custodial Activities

101. A separate statement of custodial activities would be appropriate for those entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire Government's operations, or at least the programs of other entities, rather than their own activities. The revenues should be characterized by those agencies as custodial revenues. The statement should display the sources and amounts of the collections of custodial

[19]The Board plans to undertake a project on the interest cost associated with investing in operating assets. At this time, no decision has been made on the recognition by individual entities of these types of costs.

revenues, any increases or decreases in amounts collectable but not collected, the disposition of the collections through transfers to other entities, the amounts retained by the collecting entity, and any increase or decrease in the amounts to be transferred.

102. Custodial collections do not include deposit funds, i.e., amounts held temporarily by the government (e.g., bidders' earnest money or guarantees for performance) or amounts held by the Government as an agent for others, (e.g., state income taxes withheld from Federal employees' salaries that are to be transferred to the states). These types of collections should be reported in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.

103. Organizations that collect custodial revenues that are incidental to their primary mission do not need to report the collections and disposition of these revenues in a separate statement. The disclosure of the sources and amounts of the collections and the amounts distributed to others could be disclosed in accompanying footnotes.

## Statement Of Budgetary Resources

104. The appropriate elements for a statement of budgetary resources prepared for a reporting entity would be as follows:

- **Budgetary resources made available** is the amount available to enter into obligations that will result in immediate or future outlays involving Federal Government funds. The resources should be relevant to the reporting period. The components of budgetary resources would include budget authority (i.e., appropriations, borrowing authority, and contract authority) and unobligated balances of multi-year and no-year money remaining from prior reporting periods. Budgetary resources would also include reimbursements and other income (i.e., spending authority from offsetting collections credited to an appropriation or fund account) and adjustments (e.g., recoveries of prior year obligations).
- **Status of Budgetary Resources** displays the disposition of the budgetary resources made available. It consists of the obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year lapsed budget authority that are not available, but have been carried forward to be used only to record, adjust, or liquidate obligations chargeable to the

appropriation. The total amount displayed for status should be equal to the total amount displayed as being made available.

- **Outlays** are payments to liquidate obligations, net of offsetting collections. Obligations are usually liquidated by means of cash payments (currency, checks, or electronic funds transfers), but in certain cases obligations are liquidated and outlays recorded even though no cash is disbursed. It would be appropriate, in displaying outlay information, to tie it to the obligations incurred by also displaying the transfers of obligations and the obligated balances at the beginning and end of the period.

105. Budgetary resources, obligations, outlays, and receipts are reported in the Treasury's Annual Report and Monthly Treasury Statement and in the President's Budget, although not all these publications report all these measures. These documents are usually issued prior to the issuance of financial statements prepared in accordance with generally accepted accounting principles applicable to the Federal Government. In preparing these statements, significant differences should be noted between amounts reported in the former documents and amounts reported in the subsequently prepared financial statements. Such differences should be adjusted in the records of the reporting entity and in the related records maintained by the central agencies, and the correct amounts reported in the financial statements. It would also be desirable to provide a reconciliation for significant differences appearing in the two types of statements.

## Statement of Financing

105A. The purpose of the Statement of Financing is to explain how budgetary resources obligated during the period relate to the net cost of operations for that reporting entity. This information should be presented in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship through a reconciliation, the statement provides information necessary to understand how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity. The appropriate elements for the Statement of Financing would be as indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from obligations to net cost of operations.

105B. **Obligations incurred** are amounts of new orders placed, contracts awarded, services received, and other similar transactions during the period that will require payments during the same or a future period. A deduction is needed for spending authority from offsetting collections and recoveries of prior period obligations.

105C. **Nonbudgetary resources** represent the net amount of resources received by the entity that are not included in budgetary resources. These items could include donations of assets, transfers of assets from (to) other federal entities, and financing imputed for cost subsidies. This amount would also include decreases (increases) in receivables related to revenue accrued from the public because, while the cash collected for exchange revenue is a budgetary resource, the accrual amount is not.

105D. **Resources that do not fund net cost of operations** are primarily (a) the change in amount of goods, services, and benefits ordered but not yet received or provided, (b) amounts provided in the current reporting period that fund costs incurred in prior years, and (c) amounts incurred for goods or services that have been capitalized on the balance sheet.

105E. **Costs that do not require resources** are most commonly the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations).

105F. **Financing sources yet to be provided** are the financing amounts needed in a future period to cover cost incurred in the current period.

105G. The bottom line of this reconciliation would be the **net cost of operations**.

## Statement Of Program Performance Measures

106. The statement of program performance measures should include measures for each of the major programs the reporting entity operates. The preferred types of measures are (1) output measures, i.e., the quantity of a service or product provided or the percentage of the target group provided the service or product, and that ideally meets a certain quality requirement; and (2) outcome measures, i.e., the accomplishments or results that occurred because of the services

or outcomes provided. Outcome measures could address either the ultimate program outcome or intermediate outcomes, e.g., accuracy of, timeliness of, or satisfaction with the services provided. Workload, process, and input measures should be in the minority. Explanatory information that helps the readers understand the reported measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance is appropriate. Comparative measures from prior years or similar programs and industry standards are also appropriate. They help to provide a better understanding of the level of the reporting entity's performance.[20]

107. The measures selected for reporting should relate to the programs' purposes and goals. It would be particularly useful to include measures previously included in budget documents and other materials released to the public. It would also be useful to base the selection of measures on discussions with budget examiners, Congressional staffs, and other users of the entity's financial statements.

108. The statement of program performance measures should not be cluttered with trivial measures. Measures selected should be considered important by decisionmakers and particularly the resource providers that are likely to use the financial statements. Also, relevant measures should be reported, without regard to whether they portray positive or negative performance. The most significant measures should be extracted for highlighting in the management's discussion and analysis.

109. Other characteristics to consider for reporting program performance measures are as follows :

[20]The acceptance of a statement of program performance will increase in relation to the users' perception of the relevance and reliability of the reported information. These perceptions can be enhanced to the extent there are independent assessments of the appropriateness of the measures, the completeness of the data, the actual occurrence of the reported events, and the values assigned to the data. Auditors of Federal agency financial statements are currently required (by an OMB Bulletin) to evaluate the underlying control structure for program performance measures included with the financial statements. The extent to which auditors will be expected to expand the scope of their involvement with program performance measures to include the aforementioned independent assessments would be specified by OMB consistent with government audit standards.

- **Completeness**. The measures, in the aggregate, should cover all aspects of the reporting entity's mission.
- **Legitimacy**. The measures should be accepted as relevant both inside the reporting entity and by the external stakeholders and others, e.g., the central management agencies, Congress, interest groups, the public.
- **Understandability**. The measures should communicate the performance of the entity in a readily understandable manner to any reasonably informed and interested party.
- **Comparability**. The measures should provide a frame of reference for assessing, and comparing, if appropriate, the performance of the entity and entities with similar programs for both the immediate period and over time.
- **Ability to relate to cost**. The measures should be such that a cost can be defined for each unit of output, outcome, input, etc.
- **Timeliness**. The measures should be available to users of the financial statements before they lose their capacity to be of value in assessing accountability and making decisions. The value of timeliness should not preclude the use of important measures for which results are not immediately available.
- **Consistency**. The measures should be reported consistently from period to period to allow users to have a basis for comparison and to gain an understanding of the measures being used and their meaning (recognizing that the measures should be reviewed regularly and modifications made to reflect changing circumstances).
- **Reliability**. The information should be derived from systems that produce controlled and verifiable data, although at times it may be necessary to rely on secondary sources of data.[21]

110. Since many Federal Government programs have counterpart programs at the state and local government level, for those programs, it would

[21]The Public Management Committee of the Organization for Economic Cooperation and Development, which is comprised of the twenty four democratic nations with advanced market economies, has been studying performance management systems. It has concluded, based on the experiences of countries that have implemented such systems, that performance measures should reflect three important characteristics: validity, continuity, and legitimacy. These characteristics, while intended to guide management systems in their totality, rather than simply inclusion in financial statements, have nonetheless been incorporated into the above characteristics.

also be appropriate to consider the measures states and local governments use to report performance.

111. Numerical measures are not the only way to report program performance. In some instances, it may be more meaningful and practicable to report performance with other than numerical measures.

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112. Example formats for displaying the recommended elements are provided in appendix 1. These formats are illustrative and provided solely to help readers of this document better understand the recommended concepts for displaying financial and related information. In exposing proposed standards, the Board might portray other formats. The ultimate specification of the form and content for financial statements for Federal agencies is defined by OMB.

# Appendix 1-A: Balance Sheet

## Example Financial Statement Formats

**BALANCE SHEET - as of September 30, 19X4 - ASSETS**

| | Suborganization A | Suborganization B | Suborganization C | Total FY 19X4 | Total FY 19X3 |
|---|---|---|---|---|---|
| **Entity assets:** | | | | | |
| Fund balance with Treasury | $xxx | $xxx | $xxx | $xxx | $xxx |
| Cash (and other monetary assets) | xxx | xxx | xxx | xxx | xxx |
| Investments: | | | | | |
| Intragovernmental | xxx | --- | xxx | xxx | xxx |
| With the public | xxx | xxx | xxx | xxx | xxx |
| Receivables: | | | | | |
| Intragovernmental | xxx | xxx | xxx | xxx | xxx |
| With the public | xxx | --- | xxx | xxx | xxx |
| Inventories and related properties | xxx | xxx | xxx | xxx | xxx |
| Physical assets | xxx | xxx | xxx | xxx | xxx |
| **Total entity assets** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| | | | | | |
| **Non-entity assets:** | | | | | |
| Fund balance with Treasury | xxx | xxx | xxx | xxx | xxx |
| Cash | xxx | xxx | xxx | xxx | xxx |
| Receivables: | | | | | |
| Intragovernmental | xxx | xxx | xxx | xxx | xxx |
| With the public | xxx | xxx | xxx | xxx | xxx |
| **Total non-entity assets** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| **Total assets** | **$xxx** | **$xxx** | **$xxx** | **$xxx** | **$xxx** |

**BALANCE SHEET - as of September 30, 19X4 - LIABILITIES AND NET POSITION**

| | Suborganization A | Suborganization B | Suborganization C | Total FY 19X4 | Total FY 19X3 |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| **Liabilities covered by budgetary resources:** | | | | | |
| Intragovernmental liabilities: | | | | | |
| Payables | $xxx | $xxx | $xxx | $xxx | $xxx |
| Governmental liabilities: | | | | | |
| Payables | xxx | xxx | xxx | xxx | xxx |
| **Total liabilities covered by budgetary resources** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| **Liabilities not covered by budgetary resources:** | | | | | |
| Intragovernmental liabilities: | | | | | |
| Payables | xxx | xxx | xxx | xxx | xxx |
| Governmental liabilities: | | | | | |
| Payables | xxx | xxx | xxx | xxx | xxx |
| Amounts held for others | xxx | --- | xxx | xxx | xxx |
| **Total liabilities not covered by budgetary resources** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| **Total liabilities** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| **NET POSITION** | | | | | |
| Unexpended appropriations | xxx | xxx | xxx | xxx | xxx |
| Cumulative results of operations | xxx | xxx | xxx | xxx | xxx |
| **Total net position** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| **Total liabilities and net position** | **$xxx** | **$xxx** | **$xxx** | **$xxx** | **$xxx** |

Note: The above balance sheet format is for an organization composed of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

# Appendix 1-B: Statement of Net Costs

## Example Financial Statement Formats

**STATEMENT OF NET COSTS - For the year ended September 30, 19X4**

| | Suborganization A | Suborganization B | Suborganization C | Total FY 19X4 | Total FY 19X3 |
|---|---|---|---|---|---|
| **COSTS:** | | | | | |
| **Program A:** | | | | | |
| Intragovernmental | $xxx | $--- | $--- | $xxx | $xxx |
| With the public | xxx | --- | --- | --- | --- |
| Total | xxx | --- | --- | --- | --- |
| Less earned revenues | xxx | --- | --- | xxx | --- |
| Net program costs | **xxx** | **---** | **---** | **xxx** | **xxx** |
| **Program B:** | | | | | |
| With the public | --- | xxx | xxx | xxx | xxx |
| Less earned revenues | --- | xxx | xxx | xxx | xxx |
| Net program costs | **---** | **xxx** | **xxx** | **xxx** | **xxx** |
| **Program C:** | | | | | |
| Intragovernmental | xxx | xxx | --- | xxx | xxx |
| With the public | xxx | xxx | --- | xxx | xxx |
| Net program costs | **xxx** | **xxx** | **---** | **xxx** | **xxx** |
| **Program D:** | | | | | |
| Costs with the public | --- | xxx | --- | xxx | xxx |
| Cost not allocated to programs | xxx | xxx | xxx | xxx | xxx |
| **Less other earned revenues** | **---** | **---** | **xxx** | **xxx** | **xxx** |
| **NET COST OF OPERATIONS** | **$xxx** | **$xxx** | **$xxx** | **$xxx** | **$xxx** |

# Appendix 1-C: Statement of Changes in Net Position

## Example Financial Statement Formats

**STATEMENT OF CHANGES IN NET POSITION - For the year ended September 30, 19X4**

| | Suborganization A | Suborganization B | Suborganization C | Total FY 19X4 | Total FY 19X3 |
|---|---|---|---|---|---|
| **NET COST OF OPERATIONS** | **$(xxx)** | **$(xxx)** | **$(xxx)** | **$(xxx)** | **$(xxx)** |
| **FINANCING SOURCES** | | | | | |
| Appropriations Used | xxx | xxx | xxx | xxx | xxx |
| Taxes (non-exchange revenue) | xxx | xxx | xxx | xxx | xxx |
| Donations (non-exchange revenue) | --- | xxx | xxx | xxx | xxx |
| Imputed Financing | xxx | xxx | xxx | xxx | xxx |
| Transfers-in | xxx | --- | xxx | xxx | xxx |
| Transfers-out | --- | (xxx) | --- | (xxx) | --- |
| NET RESULTS OF OPERATIONS | xxx | xxx | xxx | xxx | xxx |
| PRIOR PERIOD ADJUSTMENTS | xxx | xxx | --- | xxx | xxx |
| NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS | xxx | xxx | xxx | xxx | xxx |
| INCREASE (DECREASE) IN UNEXPENDED APPROPRIATIONS | xxx | (xxx) | xxx | xxx | xxx |
| CHANGE IN NET POSITION | xxx | xxx | xxx | xxx | xxx |
| NET POSITION-BEGINNING OF PERIOD | xxx | xxx | xxx | xxx | xxx |
| **NET POSITION-END OF PERIOD** | **$xxx** | **$xxx** | **$xxx** | **$xxx** | **$xxx** |

Note: The above statement of changes in net position format is for an organization comprised of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

# Appendix 1-D: Statement of Custodial Activities

## Example Financial Statement Formats

**STATEMENT OF CUSTODIAL ACTIVITIES - For the year ended September 30, 19X4**

| | FY 19X4 | FY 19X3 |
|---|---|---|
| **Collections:** | | |
| Income Taxes | **$(xxx)** | **$(xxx)** |
| Estate and gift taxes | xxx | xxx |
| Excise Taxes | xxx | xxx |
| Employment Taxes | xxx | xxx |
| Penalties and Interest | xxx | xxx |
| Total collections | **xxx** | **xxx** |
| Refunds and other payments | (xxx) | (xxx) |
| Net collections | xxx | xxx |
| Accrual adjustment | xxx | (xxx) |
| **Total revenues collected** | **xxx** | **xxx** |
| | | |
| **Disposition of revenues collected:** | | |
| Transferred to others: | | |
| Department of the Treasury | xxx | xxx |
| Department of Labor | xxx | xxx |
| Environmental Protection Agency | xxx | xxx |
| Total transfers | xxx | xxx |
| Retained by the entity | xxx | xxx |
| Increase (decrease) in amounts to be transferred | xxx | (xxx) |
| **Total disposition of revenues collected** | **xxx** | **xxx** |
| **Net custodial collections** | **$000** | **$000** |

# Appendix 1-E: Statement of Budgetary Resources

## Example Financial Statement Formats

**STATEMENT OF BUDGETARY RESOURCES - For the year ended September 30, 19X4**

| | Suborganization A | Suborganization B | Suborganization C | Total FY 19X4 | Total FY 19X3 |
|---|---|---|---|---|---|
| **Budgetary resources made available:** | | | | | |
| Budget authority | $xxx | $xxx | $xxx | $xxx | $xxx |
| Unobligated balances-beginning of period | xxx | xxx | xxx | xxx | xxx |
| Reimbursements and other income | xxx | xxx | xxx | xxx | xxx |
| Adjustments | xxx | xxx | xxx | xxx | xxx |
| **Total, budgetary resources made available** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| | | | | | |
| **Status of budgetary resources:** | | | | | |
| Obligations incurred (gross) | xxx | xxx | xxx | xxx | xxx |
| Unobligated balances-end of period | xxx | xxx | xxx | xxx | xxx |
| Unobligated balances-not available | xxx | xxx | xxx | xxx | xxx |
| **Total, status of budgetary resources** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
| | | | | | |
| **Outlays** | | | | | |
| Obligations incurred, net | xxx | xxx | xxx | xxx | xxx |
| Obligations balance transferred | xxx | xxx | xxx | xxx | xxx |
| Obligations balance-beginning of period | xxx | xxx | xxx | xxx | xxx |
| Less: obligations balance-end of period | xxx | xxx | xxx | xxx | xxx |
| **Total, outlays** | **$xxx** | **$xxx** | **$xxx** | **$xxx** | **$xxx** |

# Appendix 1-F: Statement of Program Performance Measures

## Example Financial Statement Formats

**Statement of Program Performance Measures[22] - For the year ended September 30, 19X4**

| | FY 19X4 | FY 19X3 | FY 19X2 |
|---|---|---|---|
| **Sub-organization A** | | | |
| **Program** | | | |
| Performance Measure | xxx | xxx | xxx |
| Performance Measure | xxx | xxx | xxx |
| **Program** | | | |
| Performance Measure | xx% | xx% | xx% |
| Performance Measure | xxx | xxx | xxx |
| **Program** | | | |
| Performance Measure | xxx | xxx | xxx |
| Performance Measure | xx% | xx% | xx% |
| **Sub-organization B** | | | |
| **Program** | | | |
| Performance Measure | xxx | xxx | xxx |
| Performance Measure | xx% | xx% | xx% |
| **Program** | | | |
| Performance Measure | xx% | xx% | xx% |
| Performance Measure | xxx | xxx | xxx |
| **Sub-organization C** | | | |
| **Program** | | | |
| Performance Measure | xxx | xxx | xxx |
| Performance Measure | xx% | xx% | xx% |

Note: Sub-organizations A, B, and C are equivalent to responsibility segments for which cost and financial data are collected. (See FASAB Exposure Draft, “Managerial Cost Accounting for Federal Government”, pages 26-30.)

[22]Although this example contains only numerical measures, the performance for some programs might be reported with other than numerical measures.

# Appendix 1-G: Statement of Financing

**EXAMPLE FINANCIAL STATEMENT FORMATS - STATEMENT OF FINANCING - For the year ended September 30, 19X4**

| **Obligations and Nonbudgetary Resources** | |
|---|---|
| Obligations incurred | $XXX |
| Spending authority for offsetting collections and other budgetary adjustment | (X) |
| Donations not in the budget | X |
| Financing imputed for cost subsidies | X |
| Transfers-in (out) | X |
| Other | X |
| Obligations, as adjusted, and Nonbudgetary Resources | XXX |
| | |
| **Resources That Do Not Fund Net Cost of Operations** | |
| Change in amount of goods, services, and benefits ordered but not yet received or provided | (X) |
| Cost capitalized on the balance sheet | (X) |
| Financing sources that fund costs of prior periods | (X) |
| Other | (X) |
| | |
| **Costs That Do Not Require Resources** | |
| Depreciation and amortization | X |
| Revaluation of assets and liabilities | X |
| Other | X |
| | |
| **Financing Sources Yet to be Provided** | X |
| | |
| **Net Cost of Operations** | $XXX |

# Appendix 2: List of Acronyms

See Consolidated List of Acronyms in “Appendix F: Consolidated List of Abbreviations” on page 1.