October 9, 2008

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Entity—Tab H

MEETING OBJECTIVES

The primary objective for the October Board meeting is to discuss the summary of the most recent Federal Entity Task Force meeting. In addition, the meeting will include discussion of the results of the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. Staff will seek Board approval on proposed next steps. See Staff Comments and Recommendations on the next page.

BRIEFING MATERIAL

This briefing packet contains the following sections and appendices:

- Attachment 1-Summary of the Federal Entity Task Force Meeting #2
- Attachment 2-Summary of Results from the Survey on Boundaries of Federal Reporting Entities
- Attachment 3-Summary of Results from the FFRDC Survey
- Appendix 1- Background—Previous Staff Proposal and SFFAC 2
- Appendix 2-Project Background

BACKGROUND

Staff circulated a Survey on Boundaries of the Federal Reporting Entities to the federal CFO and IG community to solicit feedback on organizations considered questionable or unique when assessed in determining the boundaries of reporting entities. The survey gathered information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not.

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.
Staff also distributed an FFRDC Survey to gain a better understanding of FFRDCs’ perspective of how they view their relationship with the federal government. The survey gathered information on the relationship with the federal government, other organizations that may influence the FFRDC, and current financial reporting.

Staff met with the Federal Entity Task Force on September 17, 2008 to discuss the results of the survey and determine next actions.

STAFF COMMENTS AND RECOMMENDATIONS

There was an excellent response to the survey to the CFOs and IGs with 30 responses received. The CFO and IG community were both well represented, with responses from 15 CFO, 10 OIG, and 5 Joint CFO/OIG. The response rate of the FFRDC survey was not high; we received 13 responses which is equivalent to one-third of the known FFRDCs. Overall staff believes responses received were sufficient for analysis and to draw general observations.

The results of the survey demonstrated that much of the CFO and IG community does not rely on the current Concepts statement and there is a need for the boundaries of the reporting entity to be addressed in a Standard. Although SFFAC 2 includes conclusive criterion, approximately 37% of the respondents stated it was not useful. In addition, 40% of the respondents claimed the indicative criteria were not useful in determining the boundaries of the reporting entity. Several respondents explained they didn’t use the criteria in their assessment. The results further support the need for a standard on the boundaries of the reporting entity and that a revised approach to defining the boundaries is necessary.

As you recall, staff had proposed the following general principles as a basis for the proposed standard:

- The federal reporting entity encompasses all the organizations existing within the federal government, which is the executive, legislative and judicial branches. In addition to the organizations within the three branches of the federal government, the federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government that
  - the federal government is directly financially accountable for or owns;
  - the federal government exercises control over; or
  - the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.

The survey provided an opportunity to gather information on the current staff proposal. Most of the respondents agreed with the three general principles and suggested this would be a more comprehensive approach.

- 30 out of 30 agreed with the principle that all the organizations existing within the three branches—executive, legislative and judicial branches should be included in the Federal Reporting entity.
- 25 out of 30 agreed with the principle that an organization that the Federal government owns or is accountable for should be included in the Federal Reporting entity.
- 21 out of 30 agreed with the principle that an organization that the Federal government exercises control over should included in the Federal Reporting entity.
It should be noted that most of the respondents that didn’t agree with the control principle stated that additional information was necessary and a more comprehensive definition of control was needed.

The federal entity task force met to discuss the results of the surveys and to determine next actions. Based on the respondents agreeing with the general principles and approach, the task force agreed it would be best to move forward finalizing language in the proposed standard. It was agreed that two small workgroups would assist staff in reviewing drafts of control and ownership sections. The goal would be to finalize a draft of the proposed standard for the Board’s consideration during the first quarter of 2009.

One issue the task force discussed in detail was the legislative and judicial branches not being required to report. The task force still believes the best resolution may be to seek the appropriate congressional action to require all branches to report. Members suggested that either FASAB or JFMIP could write a letter encouraging the branches to report or alternatively the letter could be directed to the appropriate committees encouraging legislation. One member suggested utilizing taxpayer groups such as the Peterson Foundation to bring attention to the issue. The task force believes the materiality issue is not as important as accountability, and financial statement audits should be required of all branches. The task force agreed that most likely the branches are immaterial but taxpayers are concerned because materiality goes beyond dollars. Staff suggested work continue on resolving the materiality issue for audit purposes while attempting to bring focus on the issue of the branches not being required to report because that may take longer to resolve.

The task force also discussed recent events with the bail outs and so forth. The discussion focused on the importance of this project in light of the recent events and that these real examples should be used as we move forward. In addition, the task force discussed that currently the Federal Reserve is excluded from the federal reporting entity. Specifically par. 47 of SFFAC 2 provides:

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.

The 2007 CFR discloses in the reporting entity footnote that the Federal Reserve System is excluded from the reporting entity because it is an independent entity that serves both public and private purposes. The 2007 CFR also discloses certain information in the Related Party Footnote about the FRBs. Specifically the footnote states the FRBs owned $774.5 billion of Treasury securities held by the public as of September 30, 2007 and FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. It also discloses those earnings totaled $32.0 billion for the year ended September 30, 2007 and the primary source of these earnings is from interest earned on Treasury securities held by the FRBs.
Considering recent events, perhaps the issue of whether the Federal Reserve System should be included or excluded should be revisited. Staff would propose researching the area further by determining how other countries treat central banking systems. Also it should be reevaluated against the general principles and related criteria developed for the proposed standard.

In addition, par 45 of SFFAC 2 which deals with the indicative criteria being temporary was discussed in considering some of the recent actions. It provides “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.” This could be interpreted if the indicative criteria that are being met are not likely to remain in existence for a time, the organization would not be a part of the reporting entity. Staff notes the staff proposal presents more discussion on this issue and is consistent with most of the other standard setters. The issue of temporary (control, ownership, etc.) will be further developed in the staff proposal.

Additionally, staff notes SFFAC 2 par. 48-50 relating to GSEs and bailouts were considered in light of the recent events. These paragraphs as well as the areas noted above will need to be considered as it appears that most of these areas will need to be amendment or rescinded.

Consistent with the “Next Steps” noted in the summary of the task force meeting, staff recommends the following:

- Move forward on finalizing language of the proposed standard. Continue task force meetings and move forward with developing more specific language on ownership and financially accountable, developing the definition for control, specific criteria and other areas. FASAB Staff will work with two informal groups on language relating to control and ownership.
- Inquire whether the JFMIP principals (or possibly FASAB or other body) would write a letter encouraging the branches to report or alternatively the letter could be directed to the appropriate committees encouraging legislation.
- FASAB staff will meet with Treasury, GAO, and OMB to discuss further actions regarding the materiality of the entities not reporting. Review what information currently is provided by the legislative and judicial branches (and what is excluded) and assess whether that is material to the CFS.
- The Federal Reserve should be revisited within the scope of this project. Other areas regarding temporary control or ownership, GSEs, bail outs and such should be considered for possible amendment or rescission.

Question for the Board -- Does the Board agree with the staff recommendation above for next steps?

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If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov.

Attachments
Attachment 1-
Summary of the
Federal Entity Task Force Meeting #2
Attachment 3- Summary of Results from the FFRDC Survey
Appendix 1- Background—
Previous Staff Proposal and SFFAC 2
Appendix 2-
Project Background
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August 2008

Staff continued to analyze responses received on the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. Staff summarized the results of the surveys for consideration by the Federal Entity Task Force. The Federal Entity Task Force will meet on September 17, 2008 to discuss the results and next steps in the project. Staff will brief the Board at the next Board meeting.

June 2008

The Federal Entity project was not on the agenda for the June Board meeting. However, staff provided the Board with an update to explain the status and provide an opportunity for members to discuss any issues or questions during the Administrative session of the Board meeting.

Staff explained that the Survey on Boundaries of Federal Reporting Entities was distributed to the financial management community in mid-May. The survey seeks information on organizations considered questionable or unique when assessed in relation to the boundaries of the reporting entity and criteria used in the assessment. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

Staff also explained that staff developed and distributed a separate survey directly to (Federally Funded Research and Development Centers) FFRDCs on June 16, 2008. The survey seeks information to gain a better understanding of FFRDCs’ perspective of how they view their relationship with the federal government. The survey seeks information on the relationship with the federal government, other organizations that may influence the FFRDC, and current financial reporting.

May 2008

FASAB sent out a survey to the Chief Financial Officers and Inspectors Generals. The survey (Survey on Boundaries of Federal Reporting Entities) will assist FASAB in the Federal Entity project. FASAB formed a task force with representatives from the financial management community to assist staff in developing the standards. The task force agreed it would be helpful to survey the community to determine organizations considered questionable or unique when assessed. The survey seeks information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

April 2008

At the April 2008 Board meeting, staff provided the Board with an update on the project and the Federal Entity Task Force. The Federal Entity Task Force held its first meeting in late February. The summary of key points developed by the task force included:
• A survey of the community to identify organizations would be helpful
• Preference for a principles-based approach in the standard
• Proposed standard should address consolidation and other disclosures
• General principles stand alone
• All branches of the federal government should report
• Ownership is separate from control
• Control is key factor in assessing boundaries
• Exceptions and other organizations to be considered at future federal entity task force meetings
• Separate meeting with intelligence representatives to occur

The Board approved staff recommendations for next steps in the Federal Entity project. Specifically, staff will distribute a survey to the federal financial management community to obtain feedback and examples of ‘questionable’ organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Staff will also send a separate survey directly to FFRDCs to gather information. Additionally, staff plans to work with Treasury, GAO and the task force to further research issues with the legislative and judicial branches and assess whether it is material to the CFS. Staff will also continue work with the task force on developing specific definitions, finalizing the principles and developing criteria for the boundaries of the reporting entity.

February 2008
FASAB formed the Federal Entity Task Force to assist in developing the proposed standards on the boundaries of the reporting entity and consolidation. The task force has approximately 20 members with representatives from various CFO and OIG organizations as well as OMB, GAO, and Treasury. The task force also has representatives from agencies that deal with hybrid organizations (such as FFRDCs) and intelligence agencies because of their unique nature. The first task force meeting is February 20, 2008. Staff will report back to the Board after meeting with the task force.

December 2007
At the December 2007 meeting, the Board discussed an updated outline paper on the boundaries of the federal reporting entity. The paper highlighted that all organizations within the three branches of the federal government are part of the federal reporting entity. In addition, the federal reporting entity includes all organizations that:

• the federal government is directly financially accountable for or owns;
• the federal government exercises control over; or
the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.

The outline paper included specific, detailed criteria for each of the broad areas identified as well as an expanded introduction that included a discussion of component reporting entities. The Board members provided general comments on the paper. The Board approved staff’s plan to form a task force to assist in developing the proposed standard on the boundaries of the reporting entity and consolidation.

Staff formed the task force and it includes members from the CFO, OIG, and IPA communities as well as specific representatives from agencies that deal with quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies. It was agreed that staff (and the task force) would concentrate on the areas identified by Board members for consideration.

**September 2007**

Staff presented an issue paper at the September meeting that discussed general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff recommended the Federal Reporting Entity include entities, organizations, transactions, and activities for which:

- the federal government is financially accountable;
- the federal government exercises control over; and
- the nature and significance of their relationship with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.

Staff also presented an outline of a proposed standard to assist with understanding how the general principles would be conveyed in a proposed standard. The general principles are consistent with the framework established in SFFAC 2 but will allow for an expansion of the detailed criteria that may go beyond what is in SFFAC 2 and resolve some of the outstanding issues.

The Board agreed with the general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff will move forward on developing detailed criteria for each.

**July 2007**

The Federal Entity project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement and it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Staff prepared outline papers for each—a Proposed Concepts Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation which were included in the July briefing materials.
Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, there was mixed feedback from Board members regarding the approach moving forward on the project. Specifically, some members were in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area. Therefore, the July Board meeting was used to get the consensus of the Board on the direction for moving forward on the project. Staff presented three options to the Board and explained the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

Based on input from the Board, staff summarized that the best approach for moving forward on the Entity Project would be option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC
2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards.

**March 2007**

The March 2007 briefing paper discussed the issue area—Definition of entity / reporting entity. In assessing how entity / reporting entity should be defined for federal financial reporting purposes, staff considered the following questions:

- Does FASAB already define entity / reporting entity?
- Should there be a distinction between Entity and Reporting Entity?
- Is there a relationship between the reporting entity concept and the objectives of federal financial reporting? If so, should this be articulated?
- How do U.S. standard-setters and National and International standard-setters define Entity / Reporting Entity?
- Would a definition be best articulated in Concepts or Standards?

The issue paper is a first in a series of papers to consider several different aspects of the federal entity concept. Staff plans to devote the next several Board meetings to issue papers that will address the following:

- Characteristics of a Reporting Entity
- Boundaries of a Reporting Entity
- Kinds of “things” that could be included in an entity—the types of transactions, events and entities that may be encompassed within a reporting entity, e.g., other entities, activities, guarantees, functions, etc.
- Overall scope of the Federal Government Reporting Entity

The intent of assessing the definition of entity / reporting entity at the beginning of the project was to finalize terms and definitions to avoid future misunderstandings and misconceptions. Current FASAB standards and concepts utilize several different terms—such as entity, reporting entity, federal reporting entity, component entity, component reporting entity, Federal Government entity when referring to entity.

Currently, there has been a diverse approach to defining the term entity and reporting entity among other standard setters. For example, FASB and IASB do not define the terms, whereas GASB defines different levels for entity depending on the context, such as reporting unit, governmental unit, reporting entity and Financial Reporting entity.

Staff did not believe it was feasible to make a recommendation regarding a proposed definition for entity and reporting entity at this point because staff believed it would be helpful to assess the scope of the federal government as well as the characteristics of entities. Staff believes
there is the potential of overlap between the definition of entity and the characteristics of an entity.

January 2007

Staff presented the Federal Entity Project Plan to the Board. Staff explained the project is part of the overall Conceptual Framework Project and is expected to last approximately three years. The project plan identifies issue areas that will be addressed in the project as well as milestone dates and included several appendices that contain pertinent excerpts from existing concepts, standards, and other reports that relate to the entity and consolidation issue from U.S., national and international standard setters that will be analyzed in greater detail throughout the project.

Staff obtained the Board’s feedback on the scope of the project, overall approach of the project, and issue areas identified. Overall, the Board members agreed with the Federal Entity Project Plan. Board members agreed that there are a number of entity issues, including a lot of unique government relationships that will need to be considered. Board members suggested that staff consider the following:

- reporting financial activities for which an entity may be responsible
- “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity-other entities, activities, guarantees, functions, etc
- often by law or regulation, a certain activity is required to publish a financial statement
- federally funded research development centers
- public-private partnerships in other countries
- situations where the government is contracting out things that used to be a government function
- Boards, councils, etc. that are not considered part of the federal government because they are not in the Budget, yet the President appoints the members
- consider what type of “related party disclosures” should be to disclose information about unique relationships (not be part of the federal entity)
- implication of the language in the Accountability for Tax Dollars Act

Staff will move forward on the Federal Entity Project. Staff plans to focus on the “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity-other entities, activities, guarantees, functions, etc. Staff will also begin research on Issue 1: Definition of Entity / Reporting Entity.
Federal Entity Task Force Meeting # 2  
September 17, 2008  
Summary

Participants
Regina Kearney, OMB  
Ann Davis, Treasury  
Lynda Downing, GAO  
Abe Dymond, FASAB Counsel  
Rick Loyd, Department of Energy  
Reginald Royster, HUD  
Naresh Chopra, DOL  
Joel Grover (Dep. IG for Fin. Management & IT), Treasury OIG  
Mark Reger (CFO), Office of Personnel Management  
LtCol Rich Brady, USMC DOD, Joint Staff  
Gary Solamon, Bureau of Economic Analysis (Budget Office)  
Denise Williams, Treasury, FMS  
Mary Baldwin, Treasury, FMS  
Tom Daxon, Former Oklahoma State Auditor  
Dan Kovlak, KPMG  
Melissa Loughan, FASAB

Summary of Task Force Meeting
Staff began the task force meeting by noting recent headlines regarding the federal government’s actions with Fannie Mae and Freddie Mac highlight the importance of the federal entity project. Staff explained that since the last task force meeting, the FASAB Board was briefed on the task force recommendations and the Board approved the recommendations.

The task force discussed the Survey on Boundaries of Federal Reporting Entities to CFOs and IGs and the Federally Funded Research and Development Centers (FFRDC) Survey were distributed over the summer. The results of the surveys were summarized for discussion by the task force.

Discussion—Survey on Boundaries of the Federal Reporting Entities
The Survey on Boundaries of the Federal Reporting Entities was sent to the federal CFO and IG community to solicit feedback on organizations considered questionable or unique when assessed in determining the boundaries of reporting entities. The survey was used to gather information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not.

There was an excellent response to the survey with 30 responses received. The CFO and IG community are both well represented, with responses from 15 CFO, 10 OIG, and 5 Joint CFO/OIG. The task force discussed the following general observations:

- Although determining the boundaries of the reporting entity has not been a major issue identified in audit findings, most agencies have relationships with various federally related
organizations. Most examples included federally funded research and development centers and nonprofit organizations.

- There appears to be inconsistent treatment across agencies which may be a result of there is no FASAB standard addressing this issue. For example, the treatment of FFRDCs varied among agencies. Certain agencies consolidated activities of FFRDCs while other provided certain disclosures and others provided no information of the activity.

- The results of the survey demonstrated that much of the community does not rely on the current Concepts statement and there is a need for the boundary of the reporting entity to be addressed in a Standard. Although our SFFAC 2 includes conclusive criterion, approximately 37% of the respondents stated it was not useful. In addition, 40% of the respondents claimed the indicative criteria were not useful in determining the boundaries of the reporting entity. Several respondents explained they didn’t use the criteria in their assessment.

- The survey provided an opportunity to gather information on the current staff proposal. Most of the respondents agreed with the three general principles and suggested this would be a more comprehensive approach.

  - 30 out of 30 agreed with the principle that all the organizations existing within the three branches—executive, legislative and judicial branches should be included in the Federal Reporting entity.
  - 25 out of 30 agreed with the principle that an organization that the Federal government owns or is accountable for should be included in the Federal Reporting entity.
  - 21 out of 30 agreed with the principle that an organization that the Federal government exercises control over should included in the Federal Reporting entity.
  The respondents that did not agree mentioned the need for additional information or further definitions of terms to answer.

The task force discussed that a lot of good information was gathered from the survey, but the task force agreed appropriate actions at this point would be to move forward finalizing the standard language.

A member commented that recent events demonstrate the reporting entity issue takes on a real important meaning in determining how these should be captured. The member further explained that these are real life situations the government is dealing with and as a task force we should be thorough so the final product would be able to address these issues.

One member explained the spiral effect of the government’s involvement in all of these institutions and considering what is part of the federal government reporting entity is a difficult task.

A task force member also commented that the Concepts 2 discussion of bail-outs comes close to some of these situations, but the task force agreed that these situations were more than a bail-out. A member stated it was his understanding that the Federal Reserve took control of the American International Group. He explained that currently the Federal Reserve is excluded from the reporting entity based on Concepts 2. The task force agreed the issue of the Federal Reserve and whether it should be included should be revisited with the project.
One member discussed some of the concerns with the indicative criteria that are presently in SFFAC 2. He explained that DOL received a waiver from OMB that allowed PBGC to be excluded from the consolidated DOL statements. He commented that it is important to have some mechanism in place for situations where the standards and concepts aren’t conclusive. He explained that agencies often have a difficult time when there is too much flexibility interpreting standards. Staff explained in most cases, agencies would always be in the best position to make determinations about the organization. Staff further explained that normally agencies and auditors work together when there is a questionable situation that may require judgment or where the standards aren’t clear and come to some agreement. When there is disagreement, the parties determine if OMB or FASAB input is necessary and that often interpretations are provided when necessary.

A member commented the task force had agreed that a principles based approach would be the best approach and wanted to confirm that was still the group’s opinion. The task force agreed the principles based approach is best.

A task force member explained the surveys were helpful and found one of the important points is the respondents obviously have issues with Concepts 2 but overwhelmingly the respondents supported the draft principles developed for the standard. Considering this, the member stated the task force should move forward on developing the standard language as there is a need for the standard. He explained there are current events that will have to be considered as we move forward.

Discussion—Federally Funded Research and Development Centers (FFRDC) Survey

The Federally Funded Research and Development Centers (FFRDC) Survey was sent to all (approximately 35) FFRDCs listed on the Master Government List of Federally Funded Research & Development Centers. 13 responses were received. The task force discussed the following general observations:

- The primary source of funding for all of the FFRDCs is the federal government. Most of the FFRDCs do receive some funding from non-federal sponsors, but amounts are minimal.

- Most FFRDCs indicated equipment was GOCO-Government owned, Contractor operated but the federal government did not own an interest in the FFRDC.

- All of the respondents indicated the federal government has the authority to review and modify or disapprove budget requests, budgetary adjustments, amendments, or rate or fee changes.

- None of the respondents indicated the ability to exercise any sovereign power of the federal government to carry out federal functions.

- The majority of the respondents indicated the
  - federal government has title to, ability to transfer title to, and/or exercises control over facilities and property used by the organization;
  - federal government has the right to require audits; and
  - organization carries out federal missions and objectives.
• Approximately half the respondents indicated the federal government has the
  o ability to select or remove the governing body; or it has the ability to designate
    management;
  o authority to approve of hiring, reassignment, and removal of other key personnel;
    and
  o ability to veto, overrule, or modify governing body decisions or otherwise significantly
    influence normal operations.

• The majority of the respondents indicated the federal government did not have the authority
to enter into contracts on behalf of the organization.

• Approximately half the respondents indicated the organization should be included in the
  federal reporting entity. It is important to note the organizations indicating yes, all have
  Department of Energy (DOE) as the primary federal sponsoring organization. All assets,
  liabilities, expenses and revenues acquired/incurred under the contract are considered
  assets, liabilities, expenses and revenues of DOE and are included in the Department's
  financial statements. In fact, the FFRDCs utilizes an integrated accounting system that
directly feeds into DOE’s system.

The task force discussed the differing accounting treatments for the FFRDCs. NSF includes a
listing of the property held by the FFRDCs but does not recognize the assets in the financial
statements. NSF also discloses potential liabilities for certain FFRDC contracts. DOE
capitalizes the property held by FFRDCs and includes post retirement benefits of the
employees. The task force commented that the agreements appear to be very similar in nature
but perhaps there is some difference in the specific contracts that would lead to differing
treatments. The task force agreed a proposed standard would assist in situations such as this,
but one member suggested that FAR should be reviewed to determine what it allows in this
area. However, certain members of the task force believed this was most likely an example of
inconsistent treatment and an area that the proposed standard would make clearer.

Discussion—Judicial and Legislative Branch Issue

Staff explained the task force had previously discussed the fact the judicial and legislative
branches were not required to prepare audited financial statements. The CFR explains the
legislative and judicial branches do not provide accrual-based information to Treasury for the
CFR (see pg. 157 of FY2007 CFR), but notes that some congressional agencies voluntarily
prepare and submit such information. Currently there is a finding in the government-wide audit
report regarding the completeness of the report and those entities that are not included.

The task force briefly discussed the steps currently performed by Treasury to capture some of
the information. Considering the branches are not required to provide the information, it has
been difficult to obtain. The task force discussed procedures that could be performed or a study
done to determine whether the information is material to the CFR.

The task force noted there should be interest in preparing financial statements for all branches
of the federal government. The task force suggested that Congress would want there to be
accountability in all of the federal government. The task force noted that even if the branches
are considered immaterial, there are benefits to having all branches prepare financial statements—assessing internal controls and demonstrating accountability and transparency.

The task force discussed the possibility of having the legislative and judicial branches phased in or some caveat in the proposed standard that would acknowledge this fact until legislation is passed. The task force suggested the proposed standard be written to account for the evolutionary nature of the issue. However, the task force agreed the proposed standard should be unbiased with regards to inclusion of the legislative and judiciary branches because all believe that for transparency, accountability, and reliability these entities should report, and as such should be included in the standard. The task force agreed the standard may not have the force of law behind it, and the legislative and judicial branches may decide not to report, but those facts are immaterial to the proposed standard and they should be included.

Counsel had previously advised that seeking legislation may either take a long time or not be successful. The task force discussed it would be helpful to bring this issue up in ways that may bring about a change. It was suggested that things could be done to put the fact out there these agencies are not preparing audited financial statements. One member explained there are government-wide efforts to promote transparency and although it may take some time, the best solution would be for the legislative and judicial branches to prepare statements.

One member suggested that something should be done to alert the branches that the issue of not preparing statements is becoming glaringly obvious and they may want to act timely. The task force agreed that whatever actions could be taken to bring focus to the issue should be attempted.

The task force believes the best resolution may be to seek the appropriate congressional action to require all branches to report. Members suggested that either FASAB or JFMIP could write a letter encouraging the branches to report or alternatively the letter could be directed to the appropriate committees encouraging legislation. One member suggested utilizing taxpayer groups such as the Peterson Foundation to bring attention to the issue. Perhaps a group such as that could strongly encourage cooperation and dialogue before other actions.

One member suggested the letter is written in a way to encourage something similar to the CFO Act for the other branches, not specific to this project. Staff explained additional research needs to be done to determine if it is within FASAB’s charter to propose legislation. Counsel suggested that it is within the charter of the three principals.

One member posed the situation that if enough research is performed to determine the entities not reporting are in fact immaterial to the CFR as of 9/30, would there be an issue? Staff explained that it would not be an issue for the audit opinion on the CFR if the auditors were satisfied with the analysis and support that determined the entities were immaterial and it was properly disclosed. However, the task force discussed that it is still an issue for accountability and transparency reasons.

Staff suggested work continue on resolving the materiality issue while attempting to bring focus on the issue of the branches not being required to report. The task force discussed the materiality issue is not as important as accountability should be required of all branches. Most likely the branches are immaterial but as a taxpayer, all are concerned with branches because materiality goes beyond dollars. Staff agreed but explained efforts could be done to address both with the hope of resolving the audit issue.
Discussion—Volunteers on Ownership and Control Language

Staff requested volunteers from the task force to assist with developing language on the Ownership & Directly Accountable For and the Control sections of the standard. The smaller work group will work on the language of the standard. The volunteers will assist in finalizing definitions (for example, definition of control.) The group would also discuss the criteria further and finalize a proposal for discussion at a future task force meeting. Several task members volunteered to assist.

Discussion—Next Steps

Staff will provide the Board with the results of the survey and the recommendations of task force for moving forward at the October Board Meeting. Specific recommendations and actions are as follows:

- Move forward on finalizing language of the proposed standard. Continue task force meetings and move forward with developing more specific language on ownership and financially accountable, developing the definition for control, specific criteria and other areas. FASAB Staff will work with two informal groups on language relating to control and ownership.
- Inquire whether the JFMIP principals (or possibly FASAB or other body) would write a letter encouraging the branches to report or alternatively the letter could be directed to the appropriate committees encouraging legislation.
- FASAB staff will meet with Treasury, GAO, and OMB to discuss further actions regarding the materiality of the entities not reporting. Review what information currently is provided by the legislative and judicial branches (and what is excluded) and assess whether that is material to the CFS.
- The Federal Reserve should be revisited within the scope of this project.
Survey on Boundaries of Federal Reporting Entities  
Staff Summary of Responses

Purpose of the Survey

Staff circulated a Survey on Boundaries of the Federal Reporting Entities to the federal CFO and IG community to solicit feedback on organizations considered questionable or unique when assessed in determining the boundaries of reporting entities. The survey seeks information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not.

Number of Responses Received

30 responses to the survey on boundaries of the federal reporting entities were received. The CFO and IG community are both well represented, with responses from 15 CFO, 10 OIG, and 5 Joint CFO/OIG. Responses were received from the following:

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<tr>
<td>CNS</td>
<td>Corporation for National and Community Service</td>
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<tr>
<td>DOC</td>
<td>Department of Commerce</td>
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<tr>
<td>HUD</td>
<td>Department of Housing and Urban Development</td>
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<tr>
<td>DOI</td>
<td>Department of Interior, Office of Historical Trust Accounting</td>
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<td>DOL</td>
<td>Department of Labor</td>
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<td>DOT</td>
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<td>VA</td>
<td>Department of Veterans Affair</td>
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<td>EPA</td>
<td>Environmental Protection Agency</td>
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<td>FCA</td>
<td>Farm Credit Administration</td>
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<td>NASA</td>
<td>National Aeronautics and Space Administration</td>
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<td>NSF</td>
<td>National Science Foundation</td>
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<td>OPM</td>
<td>Office of Personnel Management</td>
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<td>RRB</td>
<td>Railroad Retirement Board</td>
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<td>SSA</td>
<td>Social Security Administration</td>
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<td>State</td>
<td>Department of State</td>
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<td>VA</td>
<td>Department of Veterans Affair</td>
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<tr>
<td>NEA</td>
<td>National Endowment of the Arts</td>
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<tr>
<td>NSF</td>
<td>National Science Foundation</td>
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<td>OPM</td>
<td>Office of Personnel Management</td>
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<td>RRB</td>
<td>Railroad Retirement Board</td>
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<td>SSA</td>
<td>Social Security Administration</td>
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Overall Analysis and Summary of Responses Received

The questions from the survey are presented below along with a summary of the responses received. The staff’s summary is intended to support your consideration of the survey responses. A Table of Respondents and Answers is included as Attachment 1 and Detailed Explanations and Examples provided in the responses is included as Attachment 2.

The survey provided staff with the following general observations:

- Although determining the boundaries of the reporting entity has not been a major issue identified in audit findings, most agencies have relationships with various federally related organizations. Most examples included federally funded research and development centers and nonprofit organizations.

- There appears to be inconsistent treatment across agencies which may be a result of there is no FASAB standard addressing this issue. For example, the treatment of FFRDCs varied among agencies. Certain agencies consolidated activities of FFRDCs while other provided certain disclosures and others provided no information of the activity.

- The results of the survey demonstrated that much of the community does not rely on the current Concepts statement and there is a need for the boundary of the reporting entity to be addressed in a Standard. Although our SFFAC 2 includes conclusive criterion, approximately 37% of the respondents stated it was not useful. In addition, 40% of the respondents claimed the indicative criteria were not useful in determining the boundaries of the reporting entity. Several respondents explained they didn’t use the criteria in their assessment.

- The survey provided an opportunity to gather information on the current staff proposal. Most of the respondents agreed with the three general principles and suggested this would be a more comprehensive approach.
  - 30 out of 30 agreed with the principle that all the organizations existing within the three branches—executive, legislative and judicial branches should be included in the Federal Reporting entity.
  - 25 out of 30 agreed with the principle that an organization that the Federal government owns or is accountable for should be included in the Federal Reporting entity.
  - 21 out of 30 agreed with the principle that an organization that the Federal government exercises control over should included in the Federal Reporting entity.

The respondents that did not agree mentioned the need for additional information or further definitions of terms to answer.
Questions on Federal Government’s Unique Relationships

**Question 1** Does your agency have a relationship with any of the following types of federally related organizations?

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Just over half of the responses indicated that the agency did have a relationship with at least one of the types of federally related organizations. The following types were reported:

**Quasi official agencies**—
- NSF—The United States Arctic Research Commission (USARC) is an independent federal agency, historically funded through NSF’s appropriations. USARC establishes the national policy, priorities, and goals necessary to construct a federal program plan for basic and applied scientific research with respect to the Arctic. USARC is currently included in NSF’s financial statement reporting.

Many agencies included references to quasi official agencies that they have a contractual type relationship. The financial transactions are recorded in a normal manner and included in financial statements as they normally would and not other specific disclosures. Respondents included the following examples:
- FCA—Smithsonian Institution
- NRC—Smithsonian Institution
- DOJ—Metrorail; Smithsonian Institution; National Archives and Records Administration; and United States Postal Service
- DOI/Office of Historical Trust Accounting—Smithsonian Institution, Holocaust Museum, National Zoo

**Government-sponsored enterprises (GSEs)** — The following GSEs were listed but none are consolidated in agency financial statements.
- HUD—Fannie Mae and Freddie Mac
- VA—Fannie Mae and Freddie Mac
- FCA—Federal Agricultural Mortgage Corporation (Farmer Mac) and the Farm Credit System (Agricultural Credit Banks & Farm Credit Banks). FCA is their arms length regulator. FCA reports the GSE’s as separate units in the President's Budget (via MAX entry).

**Federally funded research and development centers**—The following FFRDCs were reported by respondents. This is one area where there appears to be a diverse treatment of reporting.
- DOC—National Oceanic Atmospheric Administration (NOAA) has a relationship with several federally funded research and development centers including the NOAA Cooperative Research Institutes, National Sea Grant College Program, and the NOAA Undersea Research Program. Amounts paid by NOAA are expensed for financial reporting purposes.
- NASA—contractual relationship with the Jet Propulsion Laboratory, Sandia National Laboratory, RAND, Los Alamos National Laboratory.
- NSF—FFRDCs include: National Astronomy & Ionosphere Center (Cornell) NAIC; National Center for Atmospheric Research (UCAR); National Optical Astronomy Observatories (AURA); National Radio Astronomy Observatory (AUI). Relationship is through cooperative agreements and certain operational information is captured in our footnotes. The cooperative agreements include a clause that commits the NSF to seek appropriations for termination expenses if the cooperative agreement
is terminated. This contingent liability is included as a note on the Balance Sheet (without dollar amount) and an explanation is included in the footnotes. NSF discloses the dollar amount of NSF PP&E held by others in the footnotes based upon information contained in the most recently issued audited financial statements of the organization holdings assets if available.

- NRC—Center for Nuclear Waste Regulatory Analyses

- Department of Energy--Staff would like to point out that we didn’t receive a response from the Department of Energy, but in conjunction with reviewing responses to the FFRDC survey that was distributed, staff reviewed DOE’s financial statements. DOE describes the contractual relationship as unique and that in most cases the accounting systems are integrated to capture their information. Additionally, DOE is responsible for funding certain defined benefit pension plans, as well as post-retirement benefits such as medical care and life insurance for the employees of the contractors. DOE’s financial statements not only include costs incurred by the FFRDCs but also includes certain “contractor assets (e.g. employee advances and prepaid pension costs) and liabilities (e.g. accounts payable, accrued expenses including payroll benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.”

Nonprofit organizations—

- DOC-- Bureau of Economic Analysis (BEA), has a relationship with the congressionally chartered nonprofit organization, National Academy of Public Administration (NAPA). Funding provided to NAPA are reported as grants for financial reporting purposes.
- DOI/Office of Historical Trust Accounting--nonprofits with varying degrees of association with it, e.g. (1) National Park Foundation and Fish and Wildlife Foundations - Board appointed by Secretary, Corporate Chair is Interior Secretary, Corporate Secretary is NPS or FWS Director, and (2) Friends of entities for nearly every National Park and Fish and Wildlife Refuge - Board appointments may be made by or approved by Park or Refuge Superintendent. Net assets of most of these 501 (c)(3) nonprofits inure to benefit of related Interior entity
- VA—NonProfit Research Corporations (NPCs) are independent state-chartered nonprofits that support VA approved research at VA facilities. VHA Under Secretary prescribes policies and procedures to guide the expenditure of funds. NPCs are not included or disclosed in VA financial statements.
- NASA-- Congressionally chartered nonprofit organizations, the Challenger Foundation is mandated by Congress
- DHHS—CDC Foundation which is a 501c(3) charitable organization and is an independent nonprofit. However, CDC does not own or control the CDC Foundation and therefore, does not include the Foundation's financial reporting in the CDC's financial statements

Public/Private Partnerships (PPPs) or joint ventures—

- HUD--Federal Housing Administration (FHA) participates in Joint Ventures formed under the 601 Program. FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. The investment is included on the balance sheet.
- VA-- FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. FHA uses the equity method of accounting to measure the value of its investments in these entities. The condensed, audited financial

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attachment 2

summary of results from the survey on boundaries of federal reporting entities

information for these private-sector entities is reported in FHA’s Financial Statement under Investment.

- NASA—partners with industry, academia, government agencies, and national laboratories on emerging technologies in the Innovative Partnerships Program.

government backed programs—

- Farm Credit Administration (FCA)—Federal Agricultural Mortgage Corporation (Farmer Mac) and the Farm Credit System (Agricultural Credit Banks & Farm Credit Banks). FCA is their arms length regulator. FCA does not consolidate any reporting with the GSEs.
- NASA—partners with other federal agencies; state, local, tribal, and international governments/organizations; and the media in AIRNow to provide air quality data.

question 2 Does your agency have a relationship with any other unique type of organization(s) not listed above that should be considered?

8 Yes 22 No

Most of the respondents (22 of the 30) indicated that they did not have a relationship with any other unique type of organizations. The following other unique organizations were identified in the survey:

- Treasury—Exchange Stabilization Fund
- Treasury—other entities on FASB GAAP basis
- OPM—Insurance Carriers, certain financial data from the fee-for-service carriers are consolidated into OPM’s financial statements as Assets Held by Carriers and Charges Incurred but Not Reported.
- OPM—Flexible Spending Accounts (FSA) assets are now maintained in a separate Treasury account accessed by OPM.
- State—International Boundary and Water Commission—included in Department of State’s financial statements.
- Education—Federal Family Education Loan (FFEL) Program Guaranty Agencies insure student loans against default. Guaranty Agency reserves are shown on the balance sheet of the Department of Education. Guaranty Agency reserves represent the federal government’s interest in the net assets of FFEL Program Guaranty Agencies. These reserves are the property of the United States, and are reflected in the Budget of the United States Government and on the Department’s financial statements as non-entity “Cash and Other Monetary Assets.
- RRB—National Railroad Retirement Investment Trust (NRRIT) was established as a tax-exempt entity independent from the Federal government to manage and invest Railroad Retirement assets. NRRIT is required to be audited by an independent public accountant. Previously, information about the NRRIT had been included in RRB’s PAR but was un-audited. Audit issues arose with the recent Statement of Social Insurance being subject to audit as a basic financial statement. RRB and NRRIT worked together to include NRRIT audited net asset figures for the PAR. The RRB Balance Sheet contains a line titled, “NRRIT Net Assets.” The Statement of Changes in Net Position contains the lines, “Transfers in From NRRIT” and “Change in NRRIT Assets.” The amounts reported on these lines have been supported by the NRRIT auditor’s report which is provided by November 15. The RRB’s general and special-purpose financial statements for fiscal year 2007 were audited by the RRB-OIG and unqualified opinions were issued.
**Question 3** If your agency consolidates or includes a unique organization, please describe any difficulties you may have encountered in consolidating or disclosing information. For example, please discuss issues you may have had with obtaining the appropriate information, or other challenges such as an organization using a different basis of accounting or different fiscal year.

24 of the 30 respondents noted this question was not applicable. The following comments were made by respondents:

- Treasury noted difficulties with FASB GAAP standalones do not match the Department’s FASAB GAAP information.
- NSF noted challenges with including information that may be based on different fiscal years and different basis of accounting. NSF notes that often the auditors of these other organizations (such as FFRDCs) do not want the organization to include the property because it is government owned equipment.
- OPM noted problems with obtaining information from the insurance carriers because they report on a calendar year basis.
- Education noted data quality problems from non-government entities that had they worked hard to overcome.
- RRB noted the RRB audit is dependent on the NRRIT audit so agency management must work closely to ensure dates are met. Also, agency quarterly information is impacted by out-dated information.

**Question 4 a.** Has your agency’s audit report contained a significant deficiency or material weakness related to the boundaries of the agency reporting entity or flaws in the assessment?

1 Yes 28 No 1 Other

Or included in a Management Letter?

2 Yes 27 No 1 Other

Only three responses indicated there had been some form of audit reporting related to the boundaries of the agency reporting entity or flaws in the assessment.

RRB noted the FY 2007 audit report contained a material weakness related to accounting for the social insurance fund balance because of the non-governmental nature of the NRRIT. RRB also reported the FY 2007 management letter identified a one-month delay basis of reporting NRRIT held assets.

NSF noted there was a FY 2007 management letter comment on the need for updating policies and procedures for FFRDC potential termination costs accounting and a FY 2004-2006 management letter comment related to reporting post retirement benefit liabilities for FFRDCs.

One response was considered as an “other” as it relates to DOI’s assessment that this may become a significant deficiency, material weakness, or management letter in the future.
Questions on SFFAC 2, *Entity and Display*

**Question 1a** In your experience, has the conclusive criterion (SFFAC 2 par. 41-42) proved useful in helping your agency determine if an organization should be included in your reporting entity?

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The majority of respondents believed that the conclusive criterion in SFFAC 2 had been helpful in determining if an organization should be included in the reporting entity.

However, 11 respondents stated that it had not been helpful. Three of those that indicated it had not been helpful stated that this was because they never actually used it or referenced in their determination or assessment of the boundaries of the reporting entity. Two of the respondents that stated it was not helpful explained there are instances where agencies may be included in the budget but legislation may exist to the contrary that directs for organizations to be excluded.

**Question 1b** Has an organization that meets the conclusive criterion been excluded from the reporting entity?

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The majority of respondents noted there had not been organizations that met the conclusive criterion but was excluded.

The responses that indicated an organization that met the conclusive criterion but was excluded were as follows:

- The Pension Benefit Guaranty Corporation (PBGC) was reported by the DOL-CFO and DOL-OIG. DOL received a waiver from OMB to allow PBGC to be excluded from the DOL consolidated financial statements for FY 2007 and beyond. PBGC had prepared its own audited financial statements under the Government Control Act and also submits financial data directly to Treasury for the Financial Report of the US Government.
- The RRB-OIG reported that the RRB did not previously report the NRRIT but this issued was resolved when it was included.
Question 2a In your experience, has the indicative criteria (SFFAC 2 par. 44) proved useful in helping your agency determine if an organization should be included in your reporting entity?

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While the majority of respondents agreed the indicative criteria in SFFAC 2 had been helpful in determining if an organization should be included in the reporting entity, 12 respondents stated that it had not been helpful. Four of those that indicated it had not been helpful stated that it was because they never actually used it or referenced in their determination or assessment of the boundaries of the reporting entity.

Question 2b Has an organization meeting many of the indicative criteria been excluded from the reporting entity?

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The majority of respondents noted there had not been organizations that met the indicative criteria but was excluded.

The responses that indicated an organization that met the indicative criteria but was excluded were as follows:

- DOL suggested that a case could be made for the State Unemployment Offices because of the large amounts of Federal funds associated and certain Federal influence/control over the operation that it could fall under the criteria. However DOL notes these are State agencies and not part of the Federal Government.
- RRB noted that it is difficult to apply the indicative criterion to the NRRIT. A persuasive case could be made for several categories but this has not been fully developed especially since the Railroad Retirement Board is the sole investor and would receive all proceeds should the NRRIT be dissolved.

Question 2c Has an organization been included in the reporting entity that didn’t meet the indicative or conclusive criteria?

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None of the respondents indicated there was an instance where an organization had been included in the reporting entity although it didn’t meet the indicative or conclusive criteria.
Summary of Results from the Survey on Boundaries of Federal Reporting Entities

**Question 3** Please provide any other comments or suggestions on SFFAC 2, *Entity and Display* par. 1-53 that should be considered by the Board in conjunction with this project.

Most of the respondents (24 of 30) did not offer any other comments on SFFAC 2. The following comments were made by respondents that offered suggestions for improvement:

- Two respondents suggested that indicative criteria should be more clear because they can be confusing.
- One respondent stated there should be consistency among the GAAP setting bodies for similar type issues and events.
- One respondent suggested comments from the separate FFRDC survey should be considered.

**Questions about Current Proposal (Staff Paper²)**

**Question 1** Do you generally agree with the principle that all the organizations existing within the three branches--executive, legislative and judicial branches should be included in the Federal Reporting entity?

- 30 Yes
- 0 No

All of the respondents agreed with the principle that all the organizations existing within the three branches--executive, legislative and judicial branches should be included in the Federal Reporting entity.

**Question 2** Do you generally agree that the concept of the Federal government owning an entity is applicable and relevant to determining the scope of the reporting entity?

- 28 Yes
- 2 No

The majority of the respondents agreed that ownership was applicable in the Federal government and relevant in determining the scope of the reporting entity.

The three respondents that disagreed provided the following explanations:

- Stock ownership is rare in this arena and it does not represent a typical service to citizens.
- It would be reported as an asset or investment, not part of the reporting entity.

² The Staff Paper is available on the FASAB website at [http://www.fasab.gov/pdffiles/taskforce0208.pdf](http://www.fasab.gov/pdffiles/taskforce0208.pdf)
**Question 3** Does your agency own stock or have any other ownership interest in another organization?

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The majority of the respondents indicated that the agency did not own stock or have any other ownership interest in another organization.

The following examples of ownership were provided:

- HUD/CFO response stated that FHA has an equity interest in a private sector entity (EMC mortgage) as a joint venture partner.
- Treasury/CFO response included Multi-lateral Development Banks and participation in the IMF and referred to Treasury FY 2007 PAR Notes 8 and 9.
- RRB/OIG response explained the RRB’s relationship with the NRRIT might be construed as ownership but the law that created the Trust provided otherwise, therefore, although the NRRIT holds and invests most of the assets of the Railroad Retirement Act programs, the agency doesn't exhibit and ownership characteristics.

**Question 4a** Do you generally agree that an organization that has an independent legal status outside the federal government, should be included if the federal government is directly financially accountable for or owns the organization?

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The majority of the respondents agreed that an organization that has an independent legal status outside the federal government, should be included if the federal government is directly financially accountable for or owns the organization.

The following comments were made by respondents that disagreed or offered suggestions for improvement:

- Several respondents noted that directly financial accountable is subjective and needs clarification.
- One respondent stated they needed more information for analysis of the issue.
- The RRB-OIG explained that accountability and ownership may not be the only yardsticks. The response explained that RRB is neither an owner of the NRRIT nor accountable for NRRIT activity. In previous years NRRIT was not considered part of RRB due to legislations. However, with the social insurance reporting requirements, RRB now acknowledges NRRIT as part of the entity.
**Summary of Results from the Survey on Boundaries of Federal Reporting Entities**

**Question 4b** Does your answer above depend on the degree of accountability or ownership?

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The majority of the respondents (22 of 30) agreed the degree of accountability or ownership would be a factor in the assessment.

**Question 5a** Do you generally agree that an organization that has an independent legal status outside the federal government, should be included if the federal government exercises control over the organization?

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The majority (21 of 30) of the respondents agreed an organization that the federal government exercises control over should be included in the federal reporting entity.

The following comments were made by respondents that either disagreed or offered suggestions for improvement:

- Several respondents that disagreed stated that more information or an analysis would be needed to make a decision.
- One respondent stated this type of an assessment could become an audit issue because of different interpretations.
- One respondent stated regulatory control should be excluded.
- Several respondents noted that exercises control over needs to be further defined and considered carefully.

**Question 5b** Does your answer above depend on the degree of control?

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The majority (21 of 30) of the respondents agreed the degree of control would be a factor in the assessment.

**Question 6a** Do you generally agree organizations (although not meeting accountable for/ownership and control principles) where the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete should be included?

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The majority (25 of 30) of the respondents agreed that organizations (although not meeting accountable for/ownership and control principles) where the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete should be included in the reporting entity. Most of the respondents believed there should be this caveat to allow for potential situations. The RRB explained the NRRIT would be a case in point because it doesn’t own the trust in the conventional sense nor is it accountable for its financial activity.

Five respondents disagreed and provided the following:

- Two of the respondents that disagreed suggested that other reporting such as footnotes should be required.
- Two of the respondents that disagreed suggested that additional analysis would be required.

**Question 6b** Are there organizations that your agency does not control and is not financially accountable for or owns that is currently included in your reporting entity?

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Most of the respondents had not included any organization that the agency did not control or was not financially accountable for. The yes responses were from the RRB-CFO and RRB-OIG both reporting the NRRIT which was detailed in the previous question.

**Question 7** The staff paper provides for exceptions where organizations meeting a criterion would not be included. For example, short-term or temporary situations that may meet the criteria would not warrant inclusion. Do you generally agree?

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The majority of the respondents agreed there should be provisions for exceptions where organizations meeting criterion would not be included. Most agreed with excluding temporary situations.

Of the four respondents that disagreed, one suggested more information would be needed for analysis. One respondent that disagreed suggested that it would be difficult to determine if a situation was short term versus long term or permanent.

**Question 8** Are there other situations or specific organizational types that should be considered exceptions and excluded from the boundary of the federal reporting entity?

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None of the survey responses provided examples of other situations or specific organizational types that should be considered exceptions and excluded from the boundary of the federal reporting entity. NSF did note in their response to the this question that NSF’s FFRDCs carry out research and NSF is precluded from carrying out research, therefore FFRDCs are separate in NSF’s situation.
## Table of Survey Respondents and Answers

<table>
<thead>
<tr>
<th>Agency</th>
<th>Question 1- Does your agency have a relationship with any of the following types of federally related organizations?</th>
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<th>Question 4b- Or included in a Management Letter?</th>
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<tr>
<td>CNS/CFO</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
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<td>No</td>
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<tr>
<td>DOC/CFO</td>
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<td>Respondent believes issue may cause SD, MW, or management letter comment in the future. See details in attachment.</td>
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<th>Question 1b- Has an organization that meets the conclusive criterion been excluded from the reporting entity?</th>
<th>Question 2a- In your experience, has the indicative criteria (SFFAC 2 par. 44) proved useful in helping your agency determine if an organization should be included in your reporting entity?</th>
<th>Question 2b- Has an organization meeting many of the indicative criteria been excluded from the reporting entity?</th>
<th>Question 2c- Has an organization been included in the reporting entity that didn’t meet the indicative or conclusive criteria?</th>
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### Table of Survey Respondents and Answers

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<th>Agency</th>
<th>Question 5b- Does your answer above depend on the degree of control?</th>
<th>Question 6a- Do you generally agree organizations (although not meeting accountable for/ownership and control principles) where the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete should be included?</th>
<th>Question 6b- Are there organizations that your agency does not control and is not financially accountable for or owns that is currently included in your reporting entity?</th>
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Questions on Federal Government’s Unique Relationships

Question 1- Does your agency have a relationship with any of the following types of federally related organizations? (See Appendix I for a description of the types of organization.)
   a. Quasi official agencies
   b. Government-sponsored enterprises (GSEs)
   c. Federally funded research and development centers
   d. Agency-related nonprofit organizations
   e. Public/Private Partnerships (PPPs) or joint ventures
   f. Congressionally chartered nonprofit organizations
   g. Bailout entities
   h. Marketing Boards
   i. Government backed programs

If Yes, to any of the above, please provide the name(s) of organization(s). Please also describe the nature of the relationship(s). Please also describe the current treatment for financial reporting purposes (ie, consolidated, certain disclosures, not included, etc.) and the reasons for such treatment.

DOC/CFO Response
“Two of the Department's Bureaus have relationships with one or more of the types of federally related organizations listed above. (A) The National Oceanic Atmospheric Administration (NOAA) has a relationship with several federally funded research and development centers. (B) The Bureau of Economic Analysis (BEA), has a relationship with the congressionally chartered nonprofit organization, National Academy of Public Administration (NAPA). In FY 2005, legislative language included guidance and authority to grant NAPA funding for a study on offshore outsourcing. In FY 2008, BEA had a contractual relationship with NAPA to support original research on accurately reflecting economic conditions. Funding provided to NAPA are reported as grants for financial reporting purposes.”

HUD/CFO Response
“The Federal Housing Administration within HUD participates in Joint Ventures formed under the 601 Program. FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. The investment is included on the balance sheet. HUD also has a relationship with the National Trust of Historic Preservation (NTHP) as a grantee. There are no special disclosures for this relationship.”

DOI/Office of Historical Trust Accounting Response
Agency-related nonprofit organizations—“Interior has a number of related nonprofits with varying degrees of association with it, e.g. (1) National Park Foundation and Fish and Wildlife Foundations - Board appointed by Secretary, Corporate Chair is Interior Secretary, Corporate Secretary is NPS or FWS Director, and (2) Friends of entities for nearly every National Park and Fish and Wildlife Refuge - Board appointments may made by or approved by Park or Refuge Superintendent. Net assets of most of these 501 (c)(3) nonprofits inure to benefit of related Interior entity.”
Congressionally chartered nonprofit organizations—“Some of the entities above are Congressionally Chartered.”
Government backed programs—“Interior officials are integral part of activities and operations of most of the above entities.”

DOL/CFO Response
“Legal Services Corporation, Smithsonian Institution, StateJustice Institute Pay Unemployment and disability for employees of above and reimbursed by above.”

VA/CFO Response
“Joint Ventures 601 Program (Section from MD&A and PAR)—The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its Single Family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing’s mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private-sector entities whose primary mission is dedicated to these types of activity. With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. Accordingly, to comply with the requirement of Opinion No. 18 issued by the Accounting Principles Board (APB 18), FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA’s share of the entities’ earnings or losses.

The condensed, audited financial information for these private-sector entities is reported in FHA’s Financial Statement under Investment.

Government–Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac—Non-FHA- Not included in FHA’s Financial Statement reporting.

Agency-related nonprofit organizations—Congress passed PL 100-322 allowing VA medical facilities to establish nonprofit research corporations (NPCs). Congress expanded this authority in 1999 to include education activities. The statutory purpose of NPCs is to provide a flexible funding mechanism to support VA-approved research and education activities at affiliated VA medical facilities. While each NPC is an independent, state-chartered nonprofit organization, PL 100-322 requires VHA’s Under Secretary for Health to “prescribe policies and procedures to guide the expenditure of funds” by NPCs. Furthermore, affiliated VA medical facility staff must serve on NPC boards of directors. As of October 2007, VA had 86 NPCs and reported $232 million in total revenues. Federal law and VA policy prohibit NPCs from receiving appropriated funds, thus NPCs rely on other sources of revenue such as in-kind or cash donations from for-profit, non-profit, public or private entities. Significant revenue sources include research grants from for-profit corporations, such as pharmaceutical companies, and Federal entities, such as NIH, CDC, and DoD. NPCs are not included in VA’s financial statements, including disclosures.”

FCA/CFO Response
“The GSEs with which the Farm Credit Administration (FCA) has a relationship is the Federal Agricultural Mortgage Corporation (Farmer Mac) and the Farm Credit System (Agricultural Credit Banks & Farm Credit Banks). FCA is their arms length regulator. FCA does not consolidate any reporting with the GSEs. FCA reports the GSE's as separate units in the President's Budget (via MAX entry). The quasi agency with which
FCA currently has a relationship is the Smithsonian Institution. The relationship is of a contractual nature and expenditures are handled on an expenditure refund-type basis.”

**NASA/CFO Response**

Federally funded research and development centers—“NASA has a contractual relationship with the Jet Propulsion Laboratory, Sandia National Laboratory, RAND, Los Alamos National Laboratory.”

Public/Private Partnerships (PPPs) or joint ventures—“NASA partners with industry, academia, government agencies, and national laboratories on emerging technologies in the Innovative Partnerships Program.”

Congressionally chartered nonprofit organizations—“The relationship with the Challenger Foundation is mandated by Congress.”

Government backed programs—“NASA partners with other federal agencies; state, local, tribal, and international governments/organizations; and the media in AIRNow to provide air quality data.

Financial reporting for the above is consolidated in the agency financial statements, All financial reporting is based on OMB Circular No. A-136.”

**NSF/CFO Response**

“The National Science Foundation (NSF) provides financial assistance for the operations and maintenance of the following Federally Funded Research and Development Centers (FFRDC’s) through cooperative agreements:

- National Astronomy & Ionosphere Center (Cornell) NAIC;
- National Center for Atmospheric Research (UCAR);
- National Optical Astronomy Observatories (AURA);
- National Radio Astronomy Observatory (AUI).

Our relationship is through cooperative agreements and certain operational information is captured in our footnotes. The cooperative agreements for NSF’s FFRDC’s include a clause that commits the NSF to seek appropriations for termination expenses if the cooperative agreement is terminated. This contingent liability is included as a note on the principal financial statement, Balance Sheet, without dollar amount. A corresponding explanation is included in the footnotes.

Additionally, FASAB guidance requires property, plant and equipment (PP&E) in the custody of others be excluded from NSF PP&E as defined in SFFAS No. 6, “accounting for PP&E.” NSF owned PP&E is held by both the FFRDC’s and many colleges and universities and commercial entities. NSF is required to disclose the dollar amount of NSF PP&E held by others in the footnotes based upon information contained in the most recently issued audited financial statements of the organization holdings assets (if applicable). The dollar amount of PP&E is included in the footnotes to the principal financial statements if it meets the criteria above, otherwise the dollar amount is listed as n/a. However, if the assets owned by NSF and held by others are not separately stated on the entities’ audited financial statements or not audited or financial statements are not submitted, then the amounts are not disclosed. NSF does not have any legal authority to require these entities to submit the information.

The Science and Technology Policy Institute - Institute for Defense Analysis is an FFRDC operated under contract.

The United States Arctic Research Commission (USARC) was established by the Arctic Research and Policy Act of 1984, (as amended, P. L. 101-609), to establish the national policy, priorities, and goals necessary to construct a federal program plan for basic and applied scientific research with respect to the Arctic, including natural resources and materials, physical, biological and health sciences, and social and behavioral sciences. The United States Arctic Research Commission (USARC) is an independent federal agency, historically funded through NSF’s appropriations. In FY 2007, USARC was proposed as a separate activity within the Research and Related Activities (R&RA) appropriations account, and the proposal has been accepted, based on appropriations language to date. This addresses the recommendations of several
audits of USARC, as well as the Commissioners and auditors concerns that the Commission was not dealt with as an independent agency when the budget was appropriated within the Office of Polar Programs (OPP) as in FY 2006 and prior years. The Arctic Research Commission is currently included in NSF’s financial statement reporting.”

DOL/OIG
“Legal Services Corporation, Smithsonian Institution, State Justice Institute, Pay Unemployment and Disability for employees of above and reimbursed by above.”

HUD/OIG Response
GSEs- “Fannie Mae and Freddie Mac, both are not included.”

NSF/OIG Response
“FFRDC’s - operated through cooperative agreements:
National Astronomy & Ionsphere Center (Cornell) NAIC;
National Center for Atmospheric Research (UCAR);
National Optical Astronomy Observatories (AURA); and
National Radio Astronomy Observatory (AUI). Another FFRDC is the Science and Technology Policy Institute, awarded to the Institute for Defense Analyses.

The cooperative agreements for the first four FFRDC’s include a clause that commits the NSF to seek appropriations for termination expenses if the cooperative agreement is terminated. This contingent liability is included as a note to the Balance Sheet, without a dollar amount. A corresponding explanation is included as RSI.

Additionally, FASAB guidance requires property, plant and equipment (PP&E) in the custody of others be excluded from NSF PP&E as defined in SFFAS No. 6. NSF owned PP&E is held by both the FFRDC’s and many colleges and universities and commercial entities. NSF is required to disclose the dollar amount of NSF PP&E held by others in the footnotes based upon information contained in the most recently issued audited financial statements of the organization holding the assets. The dollar amount of PP&E is included in the footnotes to the principal financial statements if it meets the criteria above, otherwise the dollar amount is listed as n/a.”

VA/OIG Response
“Agency-related nonprofit organizations: Congress passed PL 100-322 allowing VA medical facilities to establish nonprofit research corporations (NPCs). Congress expanded this authority in 1999 to include education activities. The statutory purpose of NPCs is to provide a flexible funding mechanism to support VA-approved research and education activities at affiliated VA medical facilities. While each NPC is an independent, state-chartered nonprofit organization, PL 100-322 requires VHA's Under Secretary for Health to "prescribe policies and procedures to guide the expenditure of funds" by NPCs. Furthermore, affiliated VA medical facility staff must serve on NPC boards of directors. As of October 2007, VA had 86 NPCs and reported $232 million in total revenues. Federal law and VA policy prohibit NPCs from receiving appropriated funds, thus NPCs rely on other sources of revenue such as in-kind or cash donations from for-profit, non-profit, public or private entities. Significant revenue sources include research grants from for-profit corporations, such as pharmaceutical companies, and Federal entities, such as NIH, CDC, and DoD.

NPCs are not included in VA's financial statements, including disclosures. If NPCs were to meet the indicative criteria, they still would not have been material to the statements taken as a whole.”
DHHS Joint CFO/OIG Response
“There are too many organizations to name each one. The funding is not included in the financial statements. There are many organizations that have relationships with DHHS through grants. Grant funds are obligated on the Operating Divisions books when grants are awarded and the expenditures are recorded when the grantee reports them to the Operating Division.”

DOJ Joint CFO/OIG Response
“Metrorail, Washington, D.C; Smithsonian Institution; National Archives and Records Administration; and United States Postal Service - contractually. Departmentally funded financial transactions with any entity are required to be recorded in the Departmental financial statements.”

NRC Joint CFO/OIG Response
“Quasi official agency--Smithsonian Institution; activity consolidated with overall activity of the NRC. FFRDC—Center for Nuclear Waste Regulatory Analyses; contract in accordance with FAR 35.017; not included in financial statements.”

Question 2 Does your agency have a relationship with any other unique type of organization(s) not listed above that should be considered?

DOI/Office of Historical Trust Accounting Response
“Interior cooperates with state and local park and wildlife entities, and provides grants to them. Interior also works closely with the Smithsonian Institution, Holocaust Museum, National Zoo, and similar quasi-USG organizations.”

Treasury/CFO Response
“Exchange Stabilization Fund (ESF) and other Treasury entities that are on a FASB GAAP basis for their standalone reports.”

OPM/CFO Response
“OPM has contractual relationships with its insurance carriers. OPM has funds held outside the Federal government due to these contractual relationships with the carriers. The 'community-rated' HMOs (over 200 plans) are paid 100% of premiums regardless of claims. Certain financial data from the fee-for-service carriers are consolidated into OPM's financial statements such as 'Assets Held by Carriers' and charges 'Incurred But Not Reported.' Recently, OPM developed a separate contractual relationship which offers federal employees the opportunity to establish pre-tax flexible spending accounts (FSA). Until this year, all assets were held by the carrier and very little financial information was provided to OPM. However, a substantial portion of these asset were refunded and are now maintained in a separate Treasury account accessed by OPM.”

RRB/CFO Response
“The Railroad Retirement Board (RRB) has a novel relationship with the National Railroad Retirement Investment Trust (NRRIT). The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (the “Act”). The sole purpose of the NRRIT is to manage and invest Railroad Retirement assets. The NRRIT is a tax-exempt entity independent from the Federal government. It is domiciled in and subject to the laws of the District of Columbia.

The Act authorizes the NRRIT to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to securities guaranteed by the United States. In addition, to carry out its mandate, the NRRIT’s Board of Trustees (“Board”) is authorized to make rules to govern its operations, to employ professional staff, and to contract with outside advisors to provide
legal, accounting, investment advisory or other services necessary for the proper administration of the NRRIT. Administrative expenses of the NRRIT are paid out of NRRIT assets.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of beneficiary payments. The NRRIT has no powers or authority over the administration of benefits under Railroad Retirement. Under the Act, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Act does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the Act does provide that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the Act or to enforce any provision of the Act.

Under the Act, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a statement of financial position, statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor’s report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

**Reporting**

In October 2002, a Memorandum of Understanding (MOU) entitled, “Budgetary, Accounting and Financial Reporting Responsibilities Respecting Assets Held by the National Railroad Retirement Investment Trust,” was signed. The parties signing the MOU were the RRB, NRRIT, Department of the Treasury, and Office of Management and Budget. A revised MOU that incorporates proposed changes in reporting is in draft and is being reviewed by the parties.

In fiscal year 2006, it was recognized that the RRB’s reporting and audit requirements would become more complex as a result of the new requirement that the Statement of Social Insurance (SOSI) be subject to audit as part of the basic financial statements. Issues arose related to how audited inputs from both the RRB and NRRIT would be obtained for the SOSI in a timely manner. Information included in the basic financial statements issued by the RRB needed to be consistent with the audited SOSI. NRRIT asset information had been included in the agency’s Performance and Accountability Report, but was unaudited given the more protracted process of the NRRIT year-end audit. The RRB was willing to work with all parties to explore what was achievable.

The RRB was able to work with all parties to obtain NRRIT audited net asset figures that were used in preparing the RRB’s fiscal years 2006 and 2007 Performance and Accountability Reports and special-purpose financial statements. The RRB has been including the NRRIT net assets in its financial statements by reporting singular line items. The Balance Sheet contains a line titled, “NRRIT Net Assets.” The Statement of Changes in Net Position contains the lines, “Transfers in From NRRIT” and “Change in NRRIT Assets.” The amounts reported on these lines have been supported by the NRRIT auditor’s report which is provided by November 15. The RRB’s general and special-purpose financial statements for fiscal year 2007 were audited by the RRB-OIG and unqualified opinions were issued.”

**STATE/OIG Response**

“International Boundary and Water Commission - Administered by Department of State, included in Department of State financial statements.”

**RRB/OIG Response**

“The National Railroad Retirement Investment Trust (NRRIT) was created by the Railroad Retirement and Survivors Improvement Act of 2001 to invest the surplus assets of the Railroad Retirement program which
presently exceed $30 billion. That law provided specifically that the NRRIT be non-governmental. As a result, the NRRIT is not subject to agency-level consolidation. NRRIT holdings in Federal debt securities (Treasury, TVA etc) are not disaggregated by the NRRIT and are not reported as intragovernmental by the agency.”

EDUCATION Joint CFO/OIG Response
“Federal Family Education Loan (FFEL) Program Guaranty Agencies insure FFEL program student loans against default. Guaranty Agency reserves are shown on the balance sheet of the Department of Education. Guaranty Agency reserves represent the federal government’s interest in the net assets of FFEL Program Guaranty Agencies. These reserves are the property of the United States, and are reflected in the Budget of the United States Government and on the Department's financial statements as non-entity "Cash and Other Monetary Assets."

DHHS Joint CFO/OIG Response
“CDC has a relationship with the CDC Foundation which is a 501c(3) charitable organization and is an independent nonprofit. However, CDC does not own or control the CDC Foundation and therefore, does not include the Foundation's financial reporting in the CDC's financial statements.”

Question 3 If your agency consolidates or includes a unique organization, please describe any difficulties you may have encountered in consolidating or disclosing information. For example, please discuss issues you may have had with obtaining the appropriate information, or other challenges such as an organization using a different basis of accounting or different fiscal year.

Treasury/CFO Response
“We have had difficulties with budgetary accounting /producing an ESF SBR that satisfies both OMB and FMS. FASB GAAP standalones do not match the Department's FASAB GAAP information. The FASB entities provide FASAB information to the Department's data warehouse.”

NSF/CFO Response
“See comments by federal agencies on recent draft FFRDC survey and response # 1, above. Additional challenges also include differing fiscal year (and different basis of accounting). Auditors of these entities also do not usually want them to disclose since the GOE do not belong to them and therefore, should not be displayed on their financial statements or even in the footnotes. This creates an issue to NSF since we would be unable to then cull information from the draft financial statements of these entities for our own reporting in order to meet FASAB guidance.”

OPM/CFO Response
“OPM obtains financial information from its insurance carriers for financial reporting purposes; some of the carriers report on a calendar year basis. OPM has developed a Schedule of Selected Balances to facilitate obtaining information needed for its financial statements. These procedures should also apply to the FSA balances, however they currently do not.”

DOI/Office of Historical Trust Accounting Response
“Interior is trustee-delegate for the US Government for two Indian Trust Funds, which are FASAB-defined fiduciary activities. These trust funds are analogous to a trust fund in a commercial bank or trust company…FASAB’s fiduciary activities pronouncement seems to require the two Trust funds to reported on the accrual basis when reported with the overall Interior financial statements, which will cause significant human capital investment and cost to convert them to accrual basis…”
RRB/OIG Response
“The law provides that the NRRIT be audited by independent public accountants of their choosing. The OIG's audit of the NRRIT is dependent upon the report of their accountants. The OIG is the RRB's financial auditor and we are dependent upon the NRRIT to provide audit assurance (an auditor's opinion) by the OMB due date. We have no direct contact with the NRRIT, its Trustees or personnel but rely on agency management to obtain any necessary information. We have had to work closely with agency management to develop agreements that will support the financial reporting requirements and the related audit.

In addition, agency quarterly reporting is impacted by the use of out-dated information about the value of Trust assets provided under an MOU among the RRB, OMB, Treasury and the NRRIT in which it was agreed that the NRRIT would provide monthly information about the value of its holdings on a one month delay basis. For example, the March 30th unaudited valuation is delivered during the first week of May.”

EDUCATION Joint CFO/OIG Response
“Initial implementation of the CFO Act requirements highlighted data quality problems from non-government entities that the Department worked hard to overcome. Improved reporting mechanisms had to be instituted in order for the Department to obtain the quality data necessary for fair reporting of the Department's assets and liabilities related to its loan guarantee program.”

Question 4 Has your agency’s audit report contained a significant deficiency or material weakness related to the boundaries of the agency reporting entity or flaws in the assessment? Or in a management letter?

DOI/Office of Historical Trust Accounting Response
“The issue in Question 3 may cause a significant deficiency or a material weakness when the fiduciary activities pronouncement is effective for reasons stated in question 3.” Likewise for management letter.

NSF/OIG Response
“Need updated policies and procedures, including those for FFRDC potential termination costs accounting and operational procedures - FY 2007 and 2006 management letter;
Reporting Post-Retirement Benefit Liabilities for FFRDCs - FY 2004 - 06 management letter.”

RRB/OIG Response
“In our FY 2007 auditor's opinions, we cited the agency with a material weakness related to accounting for the Social Insurance fund balance which had its roots in the non-governmental nature of the NRRIT and its limited connection to the agency.
In our FY 2007 management letter, we identified the one-month delay basis of reporting NRRIT held assets as an internal control weakness (see #3 above). Because it does not impact annual financial reporting, we did not classify this problem as a material weakness or reportable condition; however, the amounts involved are material.”
Questions on SFFAC 2, *Entity and Display*

**Question 1a** - In your experience, has the conclusive criterion (SFFAC 2 par. 41-42) proved useful in helping your agency determine if an organization should be included in your reporting entity?

**NASA/CFO Response**
“The Federal budget's Federal Programs by Agency and Account section includes NASA's primary lines of business, with a few other breakouts such as Cross Agency Support. Since NASA reports based on the primary lines of business, this criterion does not provide any additional information to use in determining the reporting entity.”

**DOL/OIG Response**
“Criteria should be a presumptive indicator unless a good reason not to classify as such and flexibility is necessary to accommodate a situation. A case in point is the PBGC needed a waiver as it uses a different basis of accounting than DOL.”

**RRB/OIG Response**
“The NRRIT appears in the Federal budget listed with other Railroad Retirement program trust funds. However, the law is specific that the NRRIT is not part of the Federal government and that it is not subject to the requirements of Title 31. That is, the conclusive criterion would apply except that the enabling legislation, which must take precedence, directs us to a contrary conclusion.”

**DOJ Joint CFO/OIG Response**
“Federal Prisons Industries, Inc. (FPI) is included as a sub-component of the Department of Justice (DOJ) in the federal Budget. FPI follows Circular No. A-136, Financial Reporting Requirements for Government Corporations.”

**Question 1b** - Has an organization that meets the conclusive criterion been excluded from the reporting entity?

**DOL/CFO Response**
“PBGC. OMB requires separate reporting for PBGC using a different basis of accounting than DOL. [DOL] received waiver from OMB.”

**DOL/OIG Response**
“PBGC. OMB requires separate reporting for PBGC using a different basis of accounting than DOL. We receive a waiver from OMB for this treatment.”

**RRB/OIG Response**
“For the first four years of its existence, the Railroad Retirement Board did not report NRRIT-held assets because, based on the law, it denied a basis for such reporting (no ownership, no accountability); Subsequent requirements for social insurance reporting, effective in FY 2006, rendered that theory incompatible with an unqualified opinion because omitting the NRRIT-held assets from proprietary statements made them inconsistent with the statement of social insurance; omitting them from the statement of social insurance presented a false picture of program solvency. Thus, after 5 years, the Railroad Retirement Board acknowledged the NRRIT as part of its entity.”
Question 2a In your experience, has the indicative criteria (SFFAC 2 par. 44) proved useful in helping your agency determine if an organization should be included in your reporting entity?

DOL/CFO Response
“A defined reporting entity is much more useful than the indicative criteria above. These criteria leave too much room for misinterpretation.”

NASA/CFO Response
“Because NASA provides complete disclosure by reporting on all funds under its control, the indicative criteria on whether an organization should or should not be included does not provide any additional information to use in determining the reporting entity.”

NSF/CFO Response
“The above is only valid to a certain extent. The current draft survey on the concept statement would hopefully shed more light/concern of some of the federal agencies. The question of control, ownership and risks are not clearly defined to determine the factors above.”

NSF/OIG Response
“NSF’s mission is to fund or provide for research. NSF's FFRDCs conduct research. Therefore, one can conclude that these FFRDCs do not carry out Federal missions and objectives, so they therefore are excluded, but this is a "fine line" distinction.”

EDUCATION Joint CFO/OIG Response
“While we don't disagree with the indicative criteria, much of this really isn't applicable to Education which has a fairly straight forward reporting entity boundary. The entities through which Education caries out its Federal mission and which have a fiduciary relationship with Education, are generally non-government corporations or state chartered entities (i.e. guarantee agencies), or public or private schools. We believe it would not be appropriate to include these entities in the entity definition for the Department.”

Question 2b Has an organization meeting many of the indicative criteria been excluded from the reporting entity?

DOL/CFO Response
“It could be argued that State unemployment offices fall under some of the criteria. However they are state agencies and not part of the Federal government.”

DOL/OIG Response
“A case could be made that because of the large amounts of Federal funds associated and certain Federal influence/control over an entity’s operation with State Unemployment Offices that it could fall under the criteria. However these are State agencies and not part of the Federal Government.”

RRB/OIG Response
“It is difficult to apply the indicative criterion to the NRRIT. A persuasive case could be made for several categories but this has not been fully developed especially since the Railroad Retirement Board is the sole investor and would receive all proceeds should the NRRIT be dissolved.”

Question 3 Please provide any other comments or suggestions on SFFAC 2, Entity and Display par. 1 -53 that should be considered by the Board in conjunction with this project.
DOI/Office of Historical Trust Accounting Response

“What standard-setter’s GAAP pronouncement apply to quassi-independent entities fully funded or nearly so by the USG? Examples are Gallaudet and Howard Universities, JF Kennedy Center for the Performing Arts, Holocaust Museum, Smithsonian Institution, National Zoo, etc. In several of these entities, the governing boards are appointed by the President of the US.

When a Federal entity issues separate financial statements for a specialized industry, e.g. (i) the USG service academies, which are institutions of higher education and the aquarium in the Commerce Department, a nonprofit type activity, and (ii) non-appropriated activities (military base commissaries, beverage stores, theaters, bowling alleys, etc.) Which standard setting body’s GAAP standards should be followed for financial statement preparation and how should they be disclosed/combined with the sponsoring USG entity?

In cases of joint ventures, e.g. an electricity-generating plant one-third owned by a publicly held NYSE-listed utility (FASB standards), a city electric department (GASB standard) and the Western Area Power Authority, an activity of the Energy Department (FASAB standards)—which standard setting body’s GAAP should be followed? One would not expect the JV entity to prepare three different sets of financial statements for each of the undivided one-third interest owners.

Pension plans are increasingly incorporating mixed entity type employers. For examples, many employees of quasi-government entities participate in US Government pension plans, but report under FASB standards. Examples are Smithsonian, Kennedy Center, Gallaudet and Howard Universities, the District of Columbia, and undoubtedly others. Similarly, many US Government police and fire-fighting activities have recruited former DC officers and firemen who remain participants of the original DC pension plan.

A number of financial statements of Indian Tribes are prepared under GASB standards, likely since the Single Audit and OMB Circular A-133 define Indian tribes as “state governments.” FASAB may want to close the loop on any ambiguity that may exist for these over 500 entities.

FASAB should open conversations with FASB and GASB to determine if some order can be made of these situations that only will increase as activities are transferred among the pro-profit and nonprofit sections, state and local government, and the US Government.

The principal issues with related organizations generally fall into two categories.

- What are the criteria for determining under which standard-setting body’s GAAP standards an entity falls.
- The above issue only matters when there is a different standard between (two bodies) or among (all three bodies) for the same economic event. Sadly, almost all of these differences are not explained to preparers and attesters when the second or even third body promulgates a standard differing form whichever body initially addressed the account/reporting issue. [Respondent] has had difficult time with standards generated by ownership vs economic activity, e.g. why would there be a different standard for (1) electricity generation and distribution among TVA (a clearly FASAB entity), the Kansas City, MO Electric Department (clearly a GASB entity), and the Potomac Electric Power Company (clearly a FASB entity) or (2) health care delivery among the VA (clearly FASAB entity). The NY City Hospital Authority (clearly a GASB entity), and MedStar (clearly a FASB non-profit entity)??"
DOL/CFO Response
“In general, indicative criteria are more confusing than useful.”

OPM/CFO Response
“Based on the definitions and descriptions provided, the U.S. Postal Service does not seem to meet the criteria of ‘federally related organizations,’ yet it is an important component of the Financial Report of the United States.”

DOL/OIG Response
“Clarity could be added to the indicative criteria. Confusion may be associated with the definitions.”

Questions about Current Proposal (Staff Paper)

Question 1  Do you generally agree with the principle that all the organizations existing within the three branches—executive, legislative and judicial branches should be included in the Federal Reporting entity?

DOI/Office of Historical Trust Accounting Response
“Agree, but suggest FASAB look to the GASB experience on its equity project and the concepts of economic benefits and burden of related entities, and who “controls’ the appointment poser of governing boards.”

NSF/CFO Response
“Judicial branch organizations are not currently required to prepare audited financial statements. FASAB’s guidance on the federal reporting entity may encourage Judicial branch organizations to comply with GAAP.”

Question 2  Do you generally agree that the concept of the Federal government owning an entity is applicable and relevant to determining the scope of the reporting entity?

DOI/Office of Historical Trust Accounting Response
“Since the USG would rarely issue stock of an entity, stock ownership would be rare. Also, the USG could acquire stock ownership of an entity in settlement of a tax assessment, bankruptcy filing or similar business failure, etc., and, even if this ownership continued for some time, it does not represent a typical USG service to citizens.”

DOL/CFO Response
“Should be reported as an asset or an investment, not as part of reporting entity.”

DOT/CFO
“For the reporting entity standalone, it does not impact the entity. For the federal government, it is dependant upon level of ownership interest.”

NSF/CFO Response
“Ownership is an indicative criterium of the expectation to share in the risks and benefits of the organization. It is likely the governments ownership interest will make it contingently liable, for example, for a share of any environmental clean-up costs.”
Question 3  Does your agency own stock or have any other ownership interest in another organization?

HUD/CFO Response
“FHA has an equity interest in a private sector entity (EMC mortgage) as a joint venture partner.”

Treasury/CFO Response
“Multi-lateral Development Banks and participation in the IMF. See Treasury FY 2007 PAR Notes 8 and 9.”

RRB/OIG Response
“The RRB's relationship with the NRRIT might be construed this way but, again, the law that created the Trust provided otherwise, therefore, although the NRRIT holds and invests most of the assets of the Railroad Retirement Act programs, the agency doesn't exhibit any ownership characteristics.”

Question 4  Do you generally agree that an organization that has an independent legal status outside the federal government, should be included if the federal government is directly financially accountable for or owns the organization?

DOI/Office of Historical Trust Accounting Response
“In the long run, FASAB needs to come up with the right answer since nobody is ever rewarded for the wrong answer. I also have been puzzled over the years why the Legislative and Judicial Branches' financial state is included in the USG AFR on a cash receipts and disbursements basis. Since the USG entity belongs to and serves the American people, why should these entities not have to undergo the same transparency as the Executive Branch?”

DOL/CFO Response
“Outside the Federal government are the key words here.”

DOT/CFO Response
“The term 'directly financially accountable' is subjective and thereby subject to different interpretations by the government entity and their independent auditor. This can become an audit issue.”

FCA/CFO Response
“The Federal government should provide for full disclosure of all public funding. If the Federal government provides a subsidy to an organization which represents less than a determined percentage of the organization's funding, the organization should not be included as part of the Federal reporting entity. However, the Federal government entity issuing the subsidy should disclose the information as part of its Federal reporting, including relevant facts about the receiving organization.”

NSF/CFO Response
“Directly financially accountable for needs clarification. Terms are not well defined. Financial accountability can be defined in a few ways. Legal liability could overshadow certain kinds of financial accountability.”

RRB/OIG Response
“Accountability & ownership may not be the only yardsticks.

The Railroad Retirement Board is neither an owner of the NRRIT nor accountable for NRRIT activity. Yet we have seen first-hand the difficulties this unconventional relationship created in trying to develop meaningful financial reports. For the first four years of its existence, the Railroad Retirement Board did not
report NRRIT-held assets because, based on the law, it denied a basis for such reporting (no ownership, no accountability).

Subsequent requirements for social insurance reporting, effective in FY 2006, rendered that theory incompatible with an unqualified opinion because omitting the NRRIT-held assets from proprietary statements made them inconsistent with the statement of social insurance; omitting them from the statement of social insurance presented a false picture of program solvency. Thus, after 5 years, the Railroad Retirement Board acknowledged the NRRIT as part of its entity.”

Question 5 Do you generally agree that an organization that has an independent legal status outside the federal government, should be included if the federal government exercises control over the organization?

DOL/CFO Response
“Outside the Federal government are the key words here. The Federal government has some degree of control over EVERYTHING.”

DOT/CFO Response
“At any point in time, if it is not perfectly clear about ownership and/or legal status the determination on how to report the organization is subjective and thereby subject to different interpretations by the government entity and their independent auditor. This can become an audit issue.”

VA/CFO Response
“More information is needed to fully respond to this question. An analysis of such organizations would assist in understanding the relevant issues.”

FCA/CFO Response
“This would be applicable if the Federal government maintains administrative control over the organization and is responsible for funding the organization's operations. For other type controls, such as regulatory control, the organizations should not be included as part of the Federal reporting entity. We recommend that the use of the phrase "exercises control over" be further defined or clarified.”

NSF/CFO Response
“Control is a term that is not clearly defined and should be considered carefully before any compliance is required. If the federal government exercises significant control it should be grounded in related legislation that must be considered.”

OPM/CFO Response
“An example of this is the U.S. Postal Service which is an 'independent establishment' fulfilling a legal mandate that is nevertheless material to the financial reporting of the U.S. Government. Even if there is not direct control, there is still the legal mandate of providing the service, in the example of the U.S. Postal Service.”

SSA/CFO Response
“SSA believes that the degree of control that the Federal government exercises over an organization is important in determining whether an organization should be included as part of the federal reporting entity. For example, SSA exercises a minimal amount of control over grant recipients in that they must comply with the terms and conditions of the grant contract. However, SSA has no control over other aspects of the organization, such as the ability to select or remove the governing body or to control the collection or disbursement of funds. It would be inappropriate to include these organizations as part of the Federal entity for reporting purposes.”

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SSA/OIG Response
“If an entity is not self-controlled, but rather controlled by the Federal government, it is really acting as an extension of the government and should be included in the Federal reporting entity. The degree of control that the Federal government exercises over an organization is important in determining whether an organization should be included as part of the federal reporting entity. For example, Agencies exercise some control over contractors and grantees in that they are required to comply with contract or grant terms and conditions. However, that requirement alone does not constitute a large degree of control. if there is no control over other aspects of the organization that impair its ability to operate independently, it would not be appropriate to include those organizations as part of the Federal reporting entity.”

DHHS Joint CFO/OIG Response
“It depends on the degree of control and the degree of financial responsibility. For instance, if the government controls the organization but does not supply funds and is not financially responsible for a fiscal failure it should not be included.”

Question 6 Do you generally agree organizations (although not meeting accountable for/ownership and control principles) where the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete should be included?

VA/CFO Response
If organizations do not meet the first two general principles (accountable for/ownership and control principles), the exclusion of those organizations from the government's financial statements is not misleading. An analysis of such organizations would assist in understanding the relevant issues and providing an answer to the question.

RRB/OIG Response
“The NRRIT would be a case in point. The NRRIT holds and invests the surplus assets of the railroad retirement act program but doesn't "own" the trust in the conventional sense nor is it accountable for NRRIT financial activity.”

Question 7- The staff paper provides for exceptions where organizations meeting a criterion would not be included. For example, short-term or temporary situations that may meet the criteria would not warrant inclusion. Do you generally agree?

DHHS Joint CFO/OIG Response
“Because short term or temporary situations often become long-term or permanent situations. If that were the case it might be difficult to determine when to begin including the organization in the financial statements and it might also result in restatements of prior year financial statements. Also if the situation were temporary but substantial the exclusion of the organization from the agency financial statements might cause the agency's financial statements to be misleading or incomplete.”

Question 8- Are there other situations or specific organizational types that should be considered exceptions and excluded from the boundary of the federal reporting entity?

NSF/OIG Response
“NSF’s FFRDCs carry out research and science. NSF is precluded from carrying out research, therefore FFRDCs are separate from NSF. This may or may not be the case at other Federal agencies.”
Purpose of the Survey

The Federally Funded Research and Development Centers (FFRDC) Survey was sent to all (approximately 35) FFRDCs listed on the Master Government List of Federally Funded Research & Development Centers (Special Report NSF 06-316).

Number of Responses Received

13 responses to the Federally Funded Research and Development Centers Survey were received. Responses were received from the following:

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<th>Abbreviation</th>
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<td>National Renewable Energy Laboratory</td>
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<td>Sandia</td>
<td>Sandia National Laboratories</td>
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<td>LBNL</td>
<td>Lawrence Berkeley National Laboratory</td>
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<td>PNNL</td>
<td>Pacific Northwest National Laboratory</td>
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<td>BEA</td>
<td>Battelle Energy Alliance</td>
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<td>SAIC</td>
<td>SAIC-Frederick, Inc National Cancer Institute</td>
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<td>MIT Lincoln Laboratory</td>
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Overall Analysis and Summary of Responses Received

The questions from the survey are presented below along with a summary of the responses received. The staff's summary is intended to support your consideration of the survey responses. A Table of Respondents and Answers is included as Attachment 1.

The survey provided staff with the following observations:

- The primary source of funding for all of the FFRDCs is the federal government. Most of the FFRDCs do receive some funding from non-federal sponsors, but amounts are minimal.

- Most FFRDCs indicated equipment was GOCO-Government owned, Contractor operated but the federal government did not own an interest in the FFRDC.

- All of the respondents indicated the federal government has the authority to review and modify or disapprove budget requests, budgetary adjustments, amendments, or rate or fee changes.
Attachment 3-Summary of Results from the FFRDC Survey

• None of the respondents indicated the ability to exercise any sovereign power of the federal government to carry out federal functions.

• The majority of the respondents indicated the
  o federal government has title to, ability to transfer title to, and/or exercises control over facilities and property used by the organization;
  o federal government has the right to require audits; and
  o organization carries out federal missions and objectives.

• Approximately half the respondents indicated the federal government has the
  o ability to select or remove the governing body; or it has the ability to designate management;
  o authority to approve of hiring, reassignment, and removal of other key personnel; and
  o ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations.

• The majority of the respondents indicated the federal government did not have the authority to enter into contracts on behalf of the organization.

• Approximately half the respondents indicated the organization should be included in the federal reporting entity. It is important to note the organizations indicating yes, all have Department of Energy (DOE) as the primary federal sponsoring organization. DOE consolidates the FFRDC information in their financial statements. In fact, the FFRDCs utilizes an integrated accounting system that directly feeds into DOE’s system.

Summary of Responses--Questions about FFRDC Relationship with the Federal Government

1. Does your organization receive funding or have a relationship with any department, agency, or administration within the federal government?
   All of the respondents indicated receiving funding and having a relationship with the federal government. See details in the accompanying chart.

2. Does your organization receive funding or have a similar relationship with any other non-federal organization(s)?
   All but 3 respondents indicated receiving funding and having a similar relationship with non-federal organizations.

3. If your organization receives funding from multiple entities (both federal and non-federal entities), please provide a breakout of funding by (1) federal sponsors, (2) federal non-sponsors, and (3) non-federal sources.
   Majority of funding from is Federal entities. See details in the accompanying chart.

4. If your organization receives funding from multiple entities (both federal and non-federal entities), which entity is the primary sponsor or entity that is responsible for managing, administering, or monitoring the FFRDC?
   Primary source is typically a Federal entity. See details in the accompanying chart.

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1 The term “relationship” broadly refers to significant types of relationships your organization may have with the federal organizations. For example, your organization may be funded by the federal government, may accomplish a federal mission, may have been created by federal legislation, may be a contractor or grantee, etc.
Current FASAB concepts describe several indicative criteria that federal entities should consider for determining the boundaries of the federal reporting entity. The following (questions 5-9) will ask for your organization’s perspective on those criteria.

5. Does your organization exercise any sovereign power of the federal government to carry out federal functions? (Examples of sovereign power are: the power to collect compulsory payments, e.g., taxes, fines, or other compulsory assessments; the use of police powers; the conduct of negotiations involving the interests of the United States with other nations; or the borrowing of funds for government use.)

None of the respondents indicated the ability to exercise any sovereign power of the federal government to carry out federal functions.

6. Does the federal government have an ownership interest in your organization?

4 Yes 9 No

9 respondents indicated the federal government did not have an ownership interest in the organization. However, some indicated that much of the equipment was GOCO-Government owned, Contractor operated.

4 respondents indicated yes to this question. However, staff notes that much of the explanation stated the federal entity owned the property, plant, and equipment but did not have an ownership interest in the actual organization.

7. Is your organization subject to the direct or continuing administrative control of the federal government, such as:

• the federal government has the ability to select or remove the governing body; or it has the ability to designate management;

  6 Yes  7 No

  Approximately half the respondents indicated the federal government has the ability to select or remove the governing body; or it has the ability to designate management.

• the federal government has the authority to approve of hiring, reassignment, and removal of other key personnel;

  6 Yes  7 No

  Approximately half the respondents indicated the federal government has the authority to approve of hiring, reassignment, and removal of other key personnel.

• the federal government has the authority to review and modify or disapprove budget requests, budgetary adjustments, amendments, or rate or fee changes;

  13 Yes  0 No

  All of the respondents indicated the federal government has the authority to review and modify or disapprove budget requests, budgetary adjustments, amendments, or rate or fee changes.

• the federal government has the ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations;

  7 Yes  6 No

  Approximately half the respondents indicated the federal government has the ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations.
Attachment 3-Summary of Results from the FFRDC Survey

- the federal government has the authority to enter into contracts on behalf of your organization;
  4 Yes        9 No
  The majority of the respondents indicated the federal government did not have the authority to enter into contracts on behalf of the organization.

- the federal government has title to, ability to transfer title to, and/or exercises control over facilities and property used by your organization; and
  9 Yes        4 No
  The majority of the respondents indicated the federal government has title to, ability to transfer title to, and/or exercises control over facilities and property used by the organization.

- the federal government has the right to require audits in addition to audits of contracts or grants.
  10 Yes       3 No
  Most of the respondents indicated the federal government has the right to require audits.

8. Does your organization carry out federal missions and objectives?
  8 Yes        5 No
  The majority of respondents indicated the organization carries out federal missions and objectives.

9. Does your organization determine the outcome or disposition of matters affecting the recipients of services that the federal government provides?
  1 Yes        12 No
  Only one respondent indicated the organization could determine the outcome or disposition of matters affecting the recipients of services that the federal government provides.

10. Do you believe your organization should be included in the federal reporting entity for federal financial reporting purposes?
    7 Yes        6 No
    Approximately half the respondents indicated the organization should be included in the federal reporting entity. It is important to note the organizations indicating yes, all have Department of Energy (DOE) as the primary federal sponsoring organization. DOE consolidates the FFRDC information in their financial statements. In fact, the FFRDCs utilizes an integrated accounting system that directly feeds into DOE’s system.

    The respondents indicating they did not believe the organization should be included in the federal reporting entity, provided the following for reasons:
    • Organization is a private, not-for-profit performing contractual work or that operates under a FFRDC contract
    • Organization is not a federal agency and is not controlled by the federal government
    • Organization is a subsidiary of a publicly traded corporation
    • Organization is independent and not an agent of the federal government
FFRDC Financial Reporting

Does your organization prepare financial statements? Basis? Audited?
8 Yes  5 No

Although five respondents indicated “No” to preparing financial statements, those respondents did state they were part of DOE’s financial statements. However, the respondents did not indicate preparing financial statements for their particular organization. In addition, the five respondents noted their basis of accounting was FASAB GAAP with a September 30 year-end. The respondents noted audits were in conjunction with DOE audit by the Office of Inspector General.

Eight respondents indicated their organization did prepare financial statements.

Two of the respondents that indicated yes, stated the organization prepared its own separate financial statements but were also included in DOE’s financial statements. The organizations used an accrual basis of accounting with a September 30 year-end. The organization’s financial statements were subject to audit by a private firm. The respondents also noted DOE financial statements were audited by DOE-OIG.

The other six respondents that prepare financial statements are the same six that noted they do not consider the organization to be part of the federal reporting entity. The respondents noted the financial statements are audited and some use different basis of accounting, such as a modified cash basis. All six respondents noted the financial statements include certain disclosures about the relationship with the federal government such as a description of the contractual relationship, schedule of expenditures, etc.
<table>
<thead>
<tr>
<th>FFRDC</th>
<th>1. Does your organization receive funding or have a relationship with any department, agency, or administration within the federal government? If Yes, please provide the name(s) of the department, agency, or administration. Please also describe the nature of the relationship(s).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ames</td>
<td>Yes. Iowa State University is the contractor and operates Ames Laboratory for the Department of Energy. Funding is provided by DOE. The buildings and property are owned by DOE. Ames Lab is considered an integrated contractor and the financial records are included in the Federal financial statements.</td>
</tr>
<tr>
<td>NREL</td>
<td>Yes. Department of Energy</td>
</tr>
<tr>
<td>Sandia</td>
<td>Yes. The Department of Energy (DOE) National Nuclear Security Administration (NNSA) placed a management and operating (M&amp;O) contract with Sandia Corporation (Sandia), a Lockheed Martin subsidiary, to manage and operate Sandia National Laboratories (SNL). SNL is a government-owned, contractor-operated (GOCO) facility. SNL's financial activities &amp; records are integrated into the financial activities &amp; records of DOE/NNSA. SNL also conducts work on a reimbursable, non-interference basis for a variety of other federal agencies including Department of Defense (DoD), Department of Homeland Security (DHS), Nuclear Regulatory Commission (NRC), etc. This work is contractual in nature, so there is no relationship between SNL's financial activities &amp; records and the financial activities &amp; records of these customers.</td>
</tr>
<tr>
<td>LBNL</td>
<td>Yes. Department of Energy. The Lawrence Berkeley National Laboratory (LBNL) is GOCO managed by the University of California via an integrated Management and Operating (M&amp;O) contract with the DOE. The M&amp;O contract requires that LBNL issue a disclosure statement of its accounting practices and to keep the disclosure statement current. Also as an intergrated M&amp;O, LBNL electronically transmits balance sheet data and monthly costs and lien data directly into the Department's accounting system. Annually LBNL submits a Statement of Cost Incurred and Claims to the Department and LBNL's internal audit performs a cost allowability audit which is shared with the DOE.</td>
</tr>
<tr>
<td>2. Does your organization receive funding or have a similar relationship with any other non-federal organization(s)? If Yes, please provide the name(s) of the organization(s). Please also describe the nature of the relationship(s).</td>
<td>Yes. Iowa State University is the contractor for the Lab. Many staff positions are on joint appointment with the Lab and university. The university has the option to develop technology generated from the Lab, patent it and license it.</td>
</tr>
<tr>
<td></td>
<td>Yes. SNL also conducts work on a reimbursable, non-interference basis for a variety of non-federal entities, including Great Britain's Atomic Weapons Establishment, various non-federal governments, various commercial entities, and various educational institutions. This work is contractual in nature, so there is no relationship between SNL's financial activities &amp; records and the financial activities &amp; records of these customers.</td>
</tr>
<tr>
<td></td>
<td>Yes. LBNL’s M&amp;O contract with the DOE includes a provision that allows the lab to perform reimbursable Work for Others. The others include other federal agencies, Foreign, State and Local governments, universities and private industry. The other Federal agencies that LBNL performs work for include: NIH, DOD, EPA, NASA, DHS, State Dept, DOI, NSF, DOC and DOA. The contract vehicle is a Work for Other agreement whose terms and conditions are dictated by the DOE contracting officer to protect DOE's intellectual property, liability, and full cost reimbursement. There are no financial reporting requirement to the other federal sponsor unless specified in the WFO agreement (for example, NIH requires an attestation from LBNL at the completion of the contract that all costs incurred were appropriate); however, the federal sponsor may at any time ask LBNL for an itemization of costs or for a copy of LBNL's approved Forward Pricing Rates. Non-Federal sponsors include Universities and Institutes State and Local Governments Foreign Governments Industry</td>
</tr>
<tr>
<td>FFRDC</td>
<td>1. Does your organization receive funding or have a relationship with any department, agency, or administration within the federal government? If Yes, please provide the name(s) of the department, agency, or administration. Please also describe the nature of the relationship(s).</td>
</tr>
<tr>
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</tr>
<tr>
<td>PNNL</td>
<td>The Pacific Northwest National Laboratory (PNNL) is operated by Battelle Memorial Institute's Pacific Northwest Division under a Management and Operating prime contract with the U.S. Department of Energy (DOE). PNNL is a multi-program National Laboratory sponsored by DOE's Office of Science (SC). Pursuant to 48 CFR 35.017-1, the PNNL prime contract constitutes the sponsoring agreement between the DOE and the contractor (Battelle), which establishes the relationship for the operation of a DOE sponsored FFRDC. Other federal agencies also have access to PNNL. The Department of Homeland Security (DHS) is authorized to have access to PNNL is authorized to perform work for DHS and other federal agencies and non-federal entities under DOE's Work for Others Program. Battelle’s contract to operate PNNL requires PNNL’s financial system and reporting to be integrated with the financial and reporting systems of DOE. Battelle's Pacific Northwest Division is a reporting unit of Battelle Memorial Institute, a tax exempt organization under the Internal Revenue Code Section 501(c)(3).</td>
</tr>
<tr>
<td>BEA</td>
<td>Yes. Department of Energy, Department of Defense, various federal agencies and commercial customers. Battelle Energy Alliance is an integrated M&amp;O contractor for the DOE. Financial reporting is performed through the DOE STANDARD ACCOUNTING AND REPORTING SYSTEM (STARS) with all agencies consolidated in this reporting system.</td>
</tr>
<tr>
<td>ORNL</td>
<td>Yes. Department of Energy (DOE) Office of Science - Receive funding through DOE Financial Plan - Consolidated. UT-Battelle, LLC is a Department of Energy Management and Operating contractor for the Oak Ridge National Laboratory (ORNL) pursuant to Contract No. DE-AC04-00OR22725</td>
</tr>
<tr>
<td>MITRE</td>
<td>Yes. Department Of Defense (DOD), Federal Aviation Administration (FAA), Internal Revenue Service (IRS) - government contractor/grantee under an agency sponsoring agreement; financial reporting is consolidated to the MITRE Corporation entity.</td>
</tr>
<tr>
<td>Organization</td>
<td>Response</td>
</tr>
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</tr>
<tr>
<td><strong>FFRDC</strong></td>
<td>1. Yes, please provide the name(s) of the department, agency, or administration. Please also describe the nature of the relationship(s).</td>
</tr>
<tr>
<td><strong>SAIC</strong></td>
<td>2. Yes, Minimal scientific support to non-federal organizations through NCI approved work for others agreements. These activities occur within the framework of the NCI Contract and are not distinct prime agreements between SAIC-Frederick and the non-Federal organization. Examples include universities, non-profits and commercial organizations such as the University of Pittsburgh, University of Chicago, University of California Irvine, University of British Columbia, Novartis Vaccines and Diagnostics, and the Frederick Innovative Technology Center, Inc. SAIC-Frederick does not receive any revenue or earn any fee as a result of these relationships; therefore, they have no impact on our operation with respect to financial reporting.</td>
</tr>
<tr>
<td><strong>MIT</strong></td>
<td>Yes, Lincoln Laboratory receives funding principally from the DoD. Other federal agencies who provide funding include: NASA; NOAA, FAA</td>
</tr>
<tr>
<td><strong>IDA</strong></td>
<td>Yes, IDA operates 3 FFRDC contracts for the government.</td>
</tr>
<tr>
<td>FFRDC</td>
<td>1. Does your organization receive funding or have a relationship with any department, agency, or administration within the federal government? If Yes, please provide the name(s) of the department, agency, or administration. Please also describe the nature of the relationship(s).</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>RAND</td>
<td>Yes. Several contracts with over 18 federal agencies.</td>
</tr>
<tr>
<td>CNA</td>
<td>Yes. CNA is a non-profit corporation providing contracted technical analysis and solutions to agencies of the federal government, including the Navy and Marine Corp, Homeland Security and the Department of Education. CNA consist of a single legal entity and have two distinctly different operating divisions. We provide analytic services on the contract that we hold to manage and operate the Navy’s FFRDC as well as other contract vehicles competitively awarded by other non-DoD agencies. Our audited financial statements, comply with generally accepted accounting principles and include a disclosure of the nature of our operations, the type of analysis and services that we perform and the relative composition of the services we provide to our FFRDC customer compared to all of the services we provided to government agencies.</td>
</tr>
<tr>
<td>FFRDC</td>
<td>Question</td>
</tr>
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</tr>
</tbody>
</table>
|       | 3. If your organization receives funding from multiple entities (both federal and non-federal entities), please provide a breakout of funding by (1) federal sponsors, (2) federal non-sponsors, and (3) non-federal sources. | Federal sponsors (DOE), $25.2M; Federal non-sponsors, $.3M, Non-federal sources, $1.1M. | Federal: Department of Energy, Departement of Defense (various agencies), EPA, others under Inter-Agency Agreements; Non-Federal - various industry sponsors for cost-reimbursable work agreements; some foreign government agencies for cost-reimbursable work agreements. | Federal Sponsors $1,413M  
Federal Non-Sponsors 838M  
Non-Federal Sources 59M  
Total $2,310M | 2007 LBNL Total Funding $570.1M:  
DOE = $449.8M,  
Other Federal Entities = $83.2M  
Non-Federal Entities = $37.1M | Total DOE 522,516,000  
DHS 121,141,000  
Other Federal Agencies and Non Federal Entities 112,768,000  
Total PNNL/FFRDC Funding 756,425,000 | DOE = $412m;  
DOD = $166m;  
Other Federal = $67m;  
Commercial = $94M | (1) Federal Sponsors $1,338.5 M *  
(2) Federal Non-sponsors $0  
(3) Non-Federal Sources $29 M  
* Includes $190.1 M of federally sponsored Work for Others. |
<p>|       | 4. If your organization receives funding from multiple entities (both federal and non-federal entities), which entity is the primary sponsor or entity that is responsible for managing, administering, or monitoring the FFRDC? | Department of Energy | Department of Energy | Department of Energy | Department of Energy | Department of Energy | Department of Energy | Department of Energy |
|       | 5. Does your organization exercise any sovereign power of the federal government to carry out federal functions? | No | No | No | No | No | No | No |
|       | 6. Does the federal government have an ownership interest in your organization? | DOE owns the property. | DOE owns laboratory land, building, and equipment. | DOE owns all SNL's property, plant, eqpt and even the ID badges. DOE owns SNL but does not have ownership interest in Sandia | Yes. DOE owns LBNL's buildings, infrastructure and equipment. Liability incurred in the course of conducting the Lab's mission is DOE's responsibility. | No | No (Govt owned, contractor operated arrangement) | No |</p>
<table>
<thead>
<tr>
<th>FFRDC</th>
<th>3. If your organization receives funding from multiple entities (both federal and non-federal entities), please provide a breakout of funding by (1) federal sponsors, (2) federal non-sponsors, and (3) non-federal sources.</th>
<th>4. If your organization receives funding from multiple entities (both federal and non-federal entities), which entity is the primary sponsor or entity that is responsible for managing, administering, or monitoring the FFRDC?</th>
<th>5. Does your organization exercise any sovereign power of the federal government to carry out federal functions?</th>
<th>6. Does the federal government have an ownership interest in your organization?</th>
</tr>
</thead>
<tbody>
<tr>
<td>MITRE</td>
<td>1) DOD, FAA, IRS, Veterans Affairs (VA) - $921M; (2), National Aeronautical Space Administration (NASA), Department Of State (DOS), Department Of Justice (DOJ), Department of Homeland Security (DHS), Health and Human Services (HHS), Department Of Commerce (DOC), Defense Finance Accounting Service, Federal Reserve, National Science Foundation (NSF), U.S. Intelligence Agencies - $179M; (3) Civil Aviation Authorities of various foreign countries - $12M.</td>
<td>Department Of Defense (DOD) - C3I FFRDC, Federal Aviation Administration (FAA) - CAASD FFRDC, Internal Revenue Service (IRS) - CEM FFRDC</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>SAIC</td>
<td>77% of total contract funding is from NCI - primary customer; 23% from other NIH customers (NIAID, others), with minimal (&lt;1%) reimbursement from other non-federal entities. However all the activities undertaken by SAIC-Frederick fall within the scope of the NCI Contract.</td>
<td>National Cancer Institute (NCI)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>MIT</td>
<td>Fed 99.5% Non-fed .5%</td>
<td>US Air Force</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>IDA</td>
<td>Totaling approx. $206,000,000</td>
<td>DOD</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>RAND</td>
<td>Several contracts with over 18 federal agencies. DOD is largest with approx. $103,000,000</td>
<td>DOD</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>CNA</td>
<td>(1) Federal Sponsors $83,536,000 (2) Federal Non-Sponsors $17,214,000 (3) Non-Federal Sources $ 6,820,000 TOTAL $107,570,000</td>
<td>Navy</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
1. Is your organization subject to the direct or continuing administrative control of the federal government, such as the federal government has the ability or authority to:

<table>
<thead>
<tr>
<th>FFRDC</th>
<th>select or remove the governing body; or it has the ability to designate management</th>
<th>approve of hiring, reassignment and removal of other key personnel</th>
<th>review and modify or disapprove budget requests, budgetary adjustments, amendments, or rate or fee changes</th>
<th>veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations</th>
<th>enter into contracts on behalf of your organization</th>
<th>title to, ability to transfer title to, and/or exercises control over facilities and property used by your organization</th>
<th>the federal government has the right to require audits in addition to audits of contracts or grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ames</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>NREL</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Sandia</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>LBNL</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>PNNL</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>BEA</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>ORNL</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>MITRE</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>SAIC</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>MIT</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IDA</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>RAND</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>CNA</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

This table outlines the degrees to which various organizations are subject to federal administrative control, based on the ability of the federal government to select or remove governing body members, approve key personnel decisions, influence budgetary adjustments, and oversee contracts and facility usage.
<table>
<thead>
<tr>
<th>FFRDC</th>
<th>8. Does your organization carry out federal missions and objectives?</th>
<th>9. Does your organization determine the outcome or disposition of matters affecting the recipients of services that the federal government provides?</th>
<th>10. Do you believe your organization should be included in the federal reporting entity for federal financial reporting purposes?</th>
<th>Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ames</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Ames Lab is already included. DOE selects governing body via RFP and issues a contract (M&amp;O) for management of the Lab. Contract clause provides for approval of all key employee employment actions. All budget requests go through DOE. DOE maintains oversight of the Lab and can influence decisions when they choose. DOE can enter into contracts on behalf of the Lab. DOE has title to the buildings and equipment. DOE performs audits of costs incurred and claimed and periodic financial statement audits as part of the DOE financial statements.</td>
</tr>
<tr>
<td>NREL</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>NREL is a part of the DOE federal laboratory system and transmits data directly to the DOE CFO for inclusion in DOE’s financial statements. Key personnel are designated in the prime contract, certain work agreements must be approved and/or signed by the DOE contracting officer, the DOE Office of the Inspector General has audit cognizance, the GAO may review or audit laboratory activities, the DOE may request audits by the DCAA</td>
</tr>
<tr>
<td>Sandia</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>SNL’s activities are included in DOE’s f/s. SNL submits its budget requests to DOE for their review &amp; incorporation into their budget request to Congress. DOE issues M&amp;O contract amendments and establishes contract performance measures to influence SNL operations. DOE enters into contracts with customers on behalf of SNL. All facilities &amp; property used by SNL are owned by the federal government, unless leased from commercial sources, in which case the leases are controlled by DOE. DOE is our cognizant audit agency and conducts numerous audits of SNL operations.</td>
</tr>
<tr>
<td>LBNL</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>DOE owns LBNL’s buildings, infrastructure and equipment. Liability incurred in the course of conducting the Lab’s mission is DOE’s responsibility. DOE determines what research work is performed at LBNL by approving and funding research work that LBNL scientists propose.</td>
</tr>
<tr>
<td>PNNL</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>DOE’s Pacific Northwest Site Office (PNSO), under DOE SC, provides direct oversight of PNNL. PNSO is located at PNNL and provides programmatic, operational, and institutional stewardship and oversight of PNNL in support of DOE’s Science and Technology programs, goals, and objectives. DOE’s authority is pursuant to the Laws, regulations, and DOE directives contained in the prime contract for operation of PNNL.</td>
</tr>
<tr>
<td>BEA</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>DOE selects the M&amp;O contractor in a competitive process; DOE manages the funding provided on the prime contract; DOE has the oversighort authority to modify governance decisions within defined bounds; DOE has title to all facilities and property at INL; Audits are part of the defined oversight by DOE.</td>
</tr>
<tr>
<td>FFRDC</td>
<td>8. Does your organization carry out federal missions and objectives?</td>
<td>9. Does your organization determine the outcome or disposition of matters affecting the recipients of services that the federal government provides?</td>
<td>10. Do you believe your organization should be included in the federal reporting entity for federal financial reporting purposes?</td>
<td>Explanations</td>
</tr>
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</tr>
<tr>
<td>ORNL</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Integrated accounting procedures are required for use under this contract. ORNL’s financial statements are consolidated into DOE’s. A monthly Standard Accounting and Reporting System (STARS) file is electronically submitted to DOE headquarters.</td>
</tr>
<tr>
<td>MITRE</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>The MITRE Corporation is a private corporation, organized as a non-profit under the laws of Delaware and is exempt from federal taxation under IRC Section 501©(3). MITRE follows GAAP and its financial statements are audited annually by PricewaterhouseCoopers, LLP. MITRE is also subject to audit by the Defense Contract Audit Agency and by the Defense Contract Management Agency. MITRE is not a federal agency or instrumentality nor does it act on behalf of any federal agency or instrumentality.</td>
</tr>
<tr>
<td>SAIC</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>SAIC-Frederick, Inc. is a wholly owned subsidiary of SAIC, Inc., a publicly traded corporation. SAIC-Frederick acts independently and not as an agent of the Government.</td>
</tr>
<tr>
<td>MIT</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>IDA is a private not-for-profit corporation that operates federal FFRDC contracts.</td>
</tr>
<tr>
<td>RAND</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>RAND is a tax exempt corporation performing research and analyses.</td>
</tr>
<tr>
<td>CNA</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>We do not believe that we are a federal reporting entity. We do not believe that the federal government is financially accountable for operations (other than in their role of contract administrator on matters germane to our contracts). We do not believe that the federal government exercises control over our operations (other than in their role in administering matters germane to our contracts). Lastly the nature and significance of our relationship with the federal government is such that the exclusion of our financial information in the federal government's information would not cause the government's financial statements to be misleading or incomplete.</td>
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<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>Ames</td>
<td>No (Part of DOE f/s)</td>
<td>DOE (FASAB GAAP)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>NREL</td>
<td>No (Part of DOE f/s)</td>
<td>DOE (FASAB GAAP)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Sandia</td>
<td>No (Part of DOE f/s)</td>
<td>DOE (FASAB GAAP)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>LBNL</td>
<td>Yes and Part of DOE’s</td>
<td>Accrual basis Oct 1-Sept 30</td>
<td>Yes PWC &amp; KPMG performs an audit for DOE OIG</td>
<td>LBNL prepares its own financial statements (Reporting Entity note states LBNL “reporting entity status is that of an integrated contractor, meaning LBNL’s accounts are integrated with those of DOE through the use of reciprocal accounts. All of the assets and liabilities are owned by the Federal Government.” LBNL is also part of DOE’s financial statements)</td>
</tr>
<tr>
<td>PNNL</td>
<td>Yes and Part of DOE’s</td>
<td>Accrual Basis Oct 1 – Sept 30</td>
<td>Yes DOE-OIG</td>
<td>PNNL prepares its own financial statements</td>
</tr>
<tr>
<td>BEA</td>
<td>No (Part of DOE f/s)</td>
<td>Accrual Basis Oct 1 – Sept 30</td>
<td>Yes DOE-OIG</td>
<td>N/A</td>
</tr>
<tr>
<td>ORNL</td>
<td>No (Part of DOE f/s)</td>
<td>DOE (FASAB GAAP)</td>
<td>ORNL’s f/s are subject to audit by DOE’s auditors</td>
<td>F/S are consolidated</td>
</tr>
<tr>
<td>MITRE</td>
<td>Yes</td>
<td>Accrual Basis GAAP</td>
<td>Yes PW-C</td>
<td>Supplemental Combined Balance Sheet Schedule &amp; supporting notes detailing centers</td>
</tr>
<tr>
<td>SAIC</td>
<td>Yes (part of its parent for f/s)</td>
<td>Yes Feb 1- Jan 31</td>
<td>Yes D&amp;T</td>
<td>SAIC-Frederick, Inc. discloses the following: ~ Advance payment agreement with NCI ~ License requirements with NRC to provide financial assurance for decommissioning if necessary ~ Status of SAIC-Frederick Retirement Plan ~ Status of operating leases</td>
</tr>
<tr>
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<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>MIT</td>
<td>Yes</td>
<td>Modified Cash Basis</td>
<td>Yes DCAA, PwC, and MIT internal audit</td>
<td>Current month and fiscal year sponsored research volume by cost category and sponsoring agency. Sources and uses of funds by contract.</td>
</tr>
<tr>
<td>IDA</td>
<td>Yes</td>
<td>Accrual basis y/e last Friday in Sept.</td>
<td>Yes PwC</td>
<td>Summary of FFRDC contracting relationship Reporting requirements of contract and IDA are subject to OMB Circular A-133 reporting.</td>
</tr>
<tr>
<td>RAND</td>
<td>Yes</td>
<td>Accrual basis for Not-for-profits</td>
<td>Yes PwC</td>
<td>Schedule of Expenditures for Financial Awards and footnotes Contract specific but normally includes financial status reports</td>
</tr>
<tr>
<td>CNA</td>
<td>Yes</td>
<td>Accrual basis September 30</td>
<td>Yes PwC</td>
<td>disclose contractual relationships with the federal government and disclose the amount of credit risk we have outstanding related to unfinished transactions with the federal government. We also disclose and include descriptions of potential contingencies involving the federal government. Disclosures in compliance with GAAP</td>
</tr>
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</table>
Introduction

Defining the boundaries for each reporting entity is very important in financial reporting. Most would agree that accounting information pertains to entities and entities use financial reports to communicate information to people concerned or interested in the entity. Therefore, the primary reason for defining the reporting entity is to ensure that users of general purpose federal financial reports (GPFFR) will be provided with complete financial information about the entity and its involvements.

Clearly defining the boundaries of the reporting entity enables users to understand the organizations encompassed by the entity. The structure of the federal government has become increasingly complex and, as such, it is important to identify organizations that would be consolidated in the GPFFR of the U.S. government and in each component entity’s financial statements.

Reporting on a consolidated basis aggregates the individual financial statements of organizations comprising a reporting entity. Consolidation is a method of accounting that combines the accounts of those organizations on a uniform basis of accounting and eliminates balances and transactions among the organizations.

Consolidation highlights that although the federal government and its component entities and other organizations may be separate legal entities, together they make up a single economic entity. The ultimate aggregation of entities is into the entire federal government reporting entity—which in reality is the only independent economic entity. Although many component entities prepare their own financial statements, individually those financial statements provide a partial or fragmented view of the federal government. Without a consolidated statement for the entire federal government, it is impossible to get a complete picture of its financial position and operations. A complete and consolidated statement of the federal government allows for sound decision-making and accountability.
At the component entity level, the reporting entity concept is important to both internal and external users. Clearly defining the reporting entity allows government officials to monitor activities undertaken by diverse component entities. Users can make the best use of the information when it is clear what is included and what is excluded from GPFFRs. Identifying the entities for inclusion in the federal government’s financial statements is 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 a means of doing so.\(^1\) In order to achieve accountability, the content and structure of the GPFFR should be clear, complete and comprehensible to citizens.

**Organization of the Federal Government**

The federal government is an extremely complex organization. Although there are other perspectives\(^2\), such as a budget perspective, in understanding the composition of the federal government, an organizationally based approach appears most appropriate in defining reporting entities for GPFFRs. This approach supports accountability in organizations and sub-organizations. An organizationally based approach in defining reporting entities provides accountability because there is a management responsible for controlling and deploying resources, producing outputs and outcomes and thereby would be accountable. In addition, the scope with an organizational approach would provide meaningful financial statements and there would likely be users of them.

The fundamental organization of the U.S. federal government is established by the Constitution. At the highest level, the U.S. federal government is composed of the executive, legislative, and judicial branches. Within each branch are many different organizations that manage resources and are responsible for operations. These include departments and major agencies, which are generally divided into smaller organizational units with a wide variety of titles including bureaus, administrations, corporations, boards and commissions. Many of these are further divided into even smaller organizations. On the other hand, there are small agencies for which division

\(^1\) SFFAC 1, par. 74

\(^2\) SFFAC 2, par. 13-28 discusses the budget and program perspective of the federal government, as well as the intertwining of the perspectives.
into smaller organizations or units is generally not necessary or appropriate. The federal reporting entity includes all of the organizations within the three branches of the federal government.

Additionally, there are many other types of organizations that must be considered when establishing the boundaries of the U.S. federal government and its component entities for GPFFR purposes. In addition to the departments, major agencies, and smaller organizational units of the three branches of the federal government, there are other types of organizations that should be considered. These include government sponsored enterprises, federally funded research and development centers, public-private partnerships, special purpose entities, joint ventures, and other quasi-governmental organizations. To ensure consistency in federal financial reporting, it is important to understand the organizational structure of federal government entities and to identify the other types of organizations that should be considered and the criteria they should be evaluated against.

**Defining Reporting Entities**

As noted, the primary reason for defining reporting entities is to ensure that users of GPFFR are provided with complete financial information about the reporting entity and its involvements. Other reasons for understanding what the reporting entity entails include:

- Ensure that for the aggregation of information at each reporting level no organization 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 organizations;

- Assist in making comparisons among alternative ways to provide similar services or products;

- Facilitate evaluating performance, responsibility, and control, especially where one agency is the provider or recipient of services attributable to or financed by another agency.
Reporting Entity

A reporting entity is an entity that issues GPFFR. It issues reports because

1. There is a statutory or administrative requirement to prepare stand alone
   financial statements; or

2. It chooses to prepare stand alone financial statements because of one or more of
   the following characteristics:
   a. it is reasonable to expect there are users of the GPFFR that would
      benefit
   b. the scope would provide a meaningful representation and demonstrate
      accountability
   c. it would be helpful for managing government operations and there is a
      management responsible for controlling and deploying resources

Reporting entities in the federal government include the federal reporting entity and its
components, component reporting entities.

Federal Reporting Entity

The federal reporting entity is the largest reporting entity in the federal government. As
stated above, the federal reporting entity encompasses all the organizations existing
within the federal government, which is the executive, legislative and judicial branches.
The federal reporting entity is made up of the component reporting entities and entities
not preparing financial reports. Meaning, the federal reporting entity is the consolidation
(net of eliminations) of the component reporting entities and entities not preparing
financial reports. For purposes of GPFFR, the federal reporting entity also may include
other types of organizations that may fall within the boundaries of the reporting entity.
Component Reporting Entities

A component reporting entity is an entity\(^3\) within the federal government that issues GPFFR. Component reporting entity is used broadly to refer to reporting entities within the federal government that prepare GPFFR. Examples of component reporting entities include executive departments, independent agencies, and government corporations.

Component reporting entities would also include sub-components (organizations that are part of a larger entity) that prepare GPFFR. Often financial statements that present aggregations of information for organizations such as an administration or a bureau are more useful than statements at the higher component level. Such statements can provide a better understanding of the financial results and status of the many individual organizations and programs constituting a department or major agency. Therefore, sub-components often will prepare financial statements. An example may include a bureau of a larger department that prepares stand alone financial statements. Other examples may include commercial functions, revolving funds, and/or other accounts for which financial statements will be prepared.

Entities Not Preparing Financial Reports

There are certain entities at all tiers of the federal government (component and sub-component) that do not issue GPFFR. For example, certain components of the judicial and legislative branches do not prepare financial reports and are not compelled to do so. In addition, certain sub-components may choose not to issue GPFFR although other sub-components within a component do so. However, although the entities may not issue their own stand-alone financial statements, the entities should provide the necessary information to ensure the larger reporting entity and ultimately the federal reporting entity are complete.

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\(^3\) The term “entity” is a general term used to refer to any legal, administrative or organizational structure or unit.
Boundaries of the Reporting Entity

Clearly defining the boundaries of a reporting entity ensures that the financial statements contain all the information essential for fair presentation of the financial position and results of operations of the reporting entity and excludes information that would not result in fair presentation. Defining the boundaries also ensures consistency and completeness in what reporting entities encompass.

Assessing whether an entity should be included within a reporting entity is often difficult and requires the exercise of professional judgment and the consideration of many factors and indicative characteristics.

The boundaries of the reporting entity and therefore what should be included in consolidated financial statements are critical because the decision whether to include or exclude organizations can impact the financial statements and the picture they provide to users. In fact, some would consider establishing the boundaries of the reporting entity (and what’s included in the consolidated financial statements) as much an impact on the federal government’s financial reporting as any other issue.

Determining the boundaries of the reporting entity helps to identify which organizations will be encompassed by the reporting entity’s GPFFR. While drawing the boundaries may be difficult, it provides an opportunity to identify federal organizations and sharpen the focus on the activities and relationships in which the federal government actively participates.

The federal reporting entity encompasses all the organizations existing within the federal government, which is the executive, legislative and judicial branches. In addition to the organizations within the three branches of the federal government, the federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government that

- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.
Likewise, a component reporting entity would include all organizations that
- the component is directly financially accountable for or owns;
- the component exercises control over; or
- the nature and significance of their relationships with the component are such that the exclusion would cause the component’s financial statements to be misleading or incomplete.

**BASIC PREMISES FOR THE STATEMENT**

- Defines the boundaries of a federal reporting entity but does not prescribe specifics of which organizations are in or out, instead provides general principles and criteria for each.

The purpose of this Statement is to provide criteria and guidance as to what would be encompassed in a federal reporting entity by clearly defining the boundaries of the reporting entity. This Statement presents a principles-based approach to determining which organizations should be included in the reporting entity because of the wide and varying relationships of the federal government. This Statement does not try to specify which reporting entities must prepare and issue financial statements.

- Substance of the relationship is determining factor, regardless of legal form of relationship.

In applying the criteria in this Statement, it is necessary to determine the substance of the relationship between the federal government and organizations that are not within the three branches of the federal government. The nature of certain relationships may not be completely reflected by their legal form. While some organizations may have a certain legal form, it is important not to allow the form to cloud the determination of whether an organization is included or excluded from the reporting entity. The use of professional judgment is required to determine if an organization should be included in the reporting entity.

- Decisions are made at the reporting date based on legislative framework
regardless of federal government’s ability to change it in the future.

The determination of whether an organization is within the boundaries of the reporting entity is based on conditions (legislation) that exist at the reporting date, because accrual-basis financial statements are based on transactions or events that already have occurred. Therefore, the power of the federal government to subsequently change those conditions and thus change the nature of its relationship with an organization in the future, does not change the boundary of the reporting entity at the reporting date.

- References to reporting entity include the federal reporting entity and its component reporting entities as the boundaries are the same.

As noted, the general principles defining the boundaries for the federal reporting entity and the component reporting entities are the same. Throughout this Statement, the term reporting entity would include both the federal reporting entity and component reporting entities.

Standards

The federal reporting entity encompasses all the organizations existing within the federal government, which is the executive, legislative and judicial branches.

This is the first principle that is considered when determining if an organization is within the boundary of the federal reporting entity. Meaning, if an organization is part of the three branches, no further assessment is required. Organizations outside the three branches or whose legal status is outside of the federal government are the ones that would be assessed against the other broad principles and related criteria.

In addition to the organizations within the three branches of the federal government, the federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government that
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- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.

The reporting entity should comprise the organizations that it is directly financially accountable for or owns.

The reporting entity should include all the organizations for which it is directly financially accountable. Evidence that the reporting entity would be directly financially accountable for an organization includes the following:

- The organization appears in the budget and has a responsibility to report back to Congress on the budget or
- The organization is owned by the reporting entity.

SFFAC 1, Objectives of Federal Financial Reporting, provides the Budgetary Integrity Objective that includes “Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised…” A reporting entity is financially accountable for all organizations encompassed in its budgetary reporting requirements. It would include all organizations that are in the President’s budget because they directly receive federal funding through legislation.

This boundary is perhaps one of the most straight-forward as users are interested in the government’s accountability for those funds and specifically, knowing how efficiently the policies of the federal government were carried out with respect to the resources entrusted to it. Therefore, an organization that is included in the Budget of the United States Government Analytical Perspectives section currently entitled Federal Programs by Agency and Account should be considered part of the federal reporting entity, as well as part of the component entity with which it appears. However, an appropriation to a federal entity that finances a subsidy to a non-federal entity would not necessitate inclusion of the non-federal entity because the non-federal entity is not directly responsible for meeting budgetary reporting requirements.
Financially accountable would also include organizations that are owned by the reporting entity, particularly if the ownership is of the organization and not just the property. Ownership includes ownership created under any arrangement and is therefore not restricted to relationships that arise solely through legal ownership. However, temporary ownership would not be included.

The reporting entity should comprise the organizations it exercises control over.

For purposes of this standard, control is defined in terms of the relationship between the reporting entity and another organization (the controlled organization). Whether the reporting entity controls an organization is a question that must be determined by reference to the definition of control established in this standard. This determination will require the application of professional judgment. Additionally, along with the substance of the relationship in each case, there are certain indicators of control that should be considered in determining whether the reporting entity controls an organization.

Control

For purposes of defining the boundaries of the reporting entity, control is the power to govern the financial and operating policies of another organization with expected benefits (or the risk of loss) to the reporting entity from the other organization’s activities.

Control refers to active or current control. It must be assessed at the reporting date regardless of the reporting entity’s ability to change it in the future. In determining if control exists, it is necessary to determine the substance of the relationship between the reporting entity and the organization as it may not be completely reflected by their legal form.

As noted, the ability to govern the financial and operating policies is an important element of federal government control. There are a variety of ways that the federal government governs the financial and operating policies of an organization, such as:

- The federal government establishes the organization’s fundamental purpose
and limits the ability of the organization to make future changes;

➢ The federal government directs the financial and operating policies on an on-going basis; or

➢ The federal government has authority to reject or modify the financial and operating policies established by an organization.

Control does not require the federal government to have responsibility for the management of the day-to-day operations of the other organization. It is the federal government’s authority to determine the policies governing those activities that indicates control. All relevant aspects and implications of each relationship would be considered in determining whether or not control exists.

It is assumed that where the federal government has the power to govern the financial and operating policies of an organization, it expects to receive a financial or non-financial benefit and/or be exposed to the risk of loss. For example, a non-financial benefit would be the federal government benefits from a service being provided on its behalf.

**Determining Whether Control Exists**

Determining whether control exists will require the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an organization does not have the power to act independently and is controlled by the federal government. At the other end, the organization will have the power to act independently and, while the federal government may have a level of influence on the organization, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the federal government and the organization in order to determine whether control exists.

As noted, determining whether the federal government controls another organization
requires the application of professional judgment and a careful consideration of the surrounding facts and circumstances, the substance of the relationship and the definition of control. There are certain indicators of control that should be considered in determining whether the federal government controls an organization. These indicators provide strong evidence of control, however; the absence of one of these specific indicators does not lead to a presumption that control is not present. The assessment of whether control exists should include consideration of all the facts and circumstances of a particular relationship.

There are certain indicators that provide more persuasive evidence of control. Control generally exists when the federal government:

- Has the authority to unilaterally appoint or remove a majority of the governing board members of another organization;
- Has the authority to govern or direct the governing body on the financial and operating policies of the organization or holds a voting majority that allows it to govern the financial and operating policies of the organization;
- Has ongoing access to another organization’s assets or has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses; and
- Has the authority to unilaterally dissolve the organization thereby having access to the assets and responsibility for the obligations.

Other indicators that provide evidence that control exists when the federal government has the power to:

- 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;
- Appoint or remove key executives or personnel;
- Establish or amend the organization’s mission;
- Approve the budgets or business plans for the organization;
Establish limits or restrictions on borrowing and investments of the organization;

Ability to veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;

Restrict the capacity to generate revenue of the organization, especially the sources of revenue;

Require audits and preparation of other financial reports; and

Establish or amend management policies.

For each indicator that applies in a particular circumstance, the degree of federal government influence would determine its importance as evidence of control. In weighing the evidence, it would be necessary to consider the indicators collectively as well as individually. The degree of importance of the indicators of control, further depends on the particular circumstances in each case. In some situations, a particular indicator may provide a high degree of evidence of control whereas, in other situations, the importance of the same indicator may not be as significant.

**Situations Where Control Does Not Exist**

Much of the focus of the reporting entity standard is on control and determining whether it exists. It is also important to distinguish what doesn’t constitute control. Control would not be inferred from:

- Regulatory powers;
- Constitutional responsibility; or
- Purchase power.

The federal government has the power to regulate the behavior of many organizations by use of its sovereign and legislative powers. The federal government has the power to regulate the behavior of many 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 defining the boundaries of the reporting entity because the government’s interest in these organizations extends only to the regulatory aspects of the operations.

Control does not stem simply from the federal government’s constitutional responsibility for a certain activity. When the federal government has constitutional responsibility for a certain activity, it does not mean the federal government controls all the organizations performing such activities. The nature of the relationship between the federal government and the organization performing the activity is the determining factor.

Purchase power does not constitute control for purposes of defining the boundaries of the reporting entity. Additionally, certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether it will accept funding or do business with the federal government. For example, many not-for-profits rely on the federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence the organization which is dependent on its funding or business through purchase power, the federal government does not govern the organization’s financial and operating policies. Therefore, purchase power does not constitute control for purposes of defining the boundaries of the reporting entity.

The reporting entity should comprise the organizations for which the nature and significance of their relationships with the federal government are such that the exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

There are instances where organizations may not meet either of the first two broad characteristics listed above, yet the nature and significance of the relationship is such that excluding them would make the GPFFR misleading or incomplete. For example, there may be instances when, for political or other reasons, an organization is not listed in the “Federal Programs by Agency and Account” and it may be difficult to provide sufficient evidence the federal government controls the organization, yet the GPFFR
would be misleading or incomplete if they were excluded.

Criteria for determining whether an organization not listed in the “Federal Programs by Agency and Account” and not controlled by the federal government is nevertheless part of the reporting entity are as follows:

- TBD by working with task force, possibilities
- The organization is an integral part of the federal government’s exercise of its sovereign power 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.
- The organization carries out federal missions and objectives.
- The organization determines the outcome or disposition of matters affecting the recipients of services that the federal government provides.

EXCLUSIONS –There are certain situations where organizations meeting the broad principles and criteria would be excluded from the reporting entity. Organizations would be excluded in the following situations:

- Temporary existence of one of the above criteria. Organizations should be excluded if one of the conditions or criteria is for the short-term or temporary. Meaning, organizations should only be included in the reporting entity when the criteria being met, is likely to remain in existence for a time, it is more than fleeting. For example, the federal government may have temporary control of an organization with no plan of continuing but instead plans to relinquish control.

- Severe restrictions that prevent the federal government from controlling. The
federal government may be subject to severe restrictions that may prevent it from truly controlling or benefiting from the relationship or activity.

➢ *The organizations and functions pertain to monetary policy.* 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. For example, the Federal Reserve System would not be considered part of the federal reporting entity.

➢ *Others….TBD after task force meeting and sharing of draft paper.*

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**Federal Government’s Unique Relationships (Quasi Government / Hybrid Organizations)**

In recent years, the federal government has increased the use of hybrid organizations for the implementation of public policy. These hybrid organizations are federally related entities that possess legal characteristics of both the governmental and private sectors. The federal government’s use of these unique, “quasi government” or “hybrid organizations” have grown in number, size and importance. The one common characteristic of these quasi government entities is that they are *not* agencies of the United States as that term is defined in Title 5 of the *U.S. Code*. However, the accountability and transparency of these organizations are important as well as determining whether they should be included within the boundary of the federal reporting entity and/or its component entities.

The following organizations will be considered and evaluated against the general principles and criteria for the boundaries of the federal reporting entity:

➢ Quasi official agencies

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4 The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533, Summary
Appendix 1- Background—Previous Staff Proposal and SFFAC

- Government-sponsored enterprises (GSEs)
- Federally funded research and development centers
- Agency-related nonprofit organizations
- Joint ventures or public/private partnerships
- Congressionally chartered nonprofit organizations
- Bailout entities
- Others

**Quasi official agencies**—The National Archives and Records Administration (NARA) provides the following defining characteristic for quasi official agencies in that they “are not agencies under the definition of 5 U.S.C. 105 but are required by statute to publish certain information on their programs and activities in the Federal Register.”\(^5\) The United States Government Manual, 2006-2007 contained the following for quasi official agencies: Legal Services Corporation, the Smithsonian Institution, State Justice Institute and the United States Institute of Peace.

**Government-sponsored enterprises (GSEs)**—GSEs are defined by Congress in enabling legislation. Congress defined the term GSE for budgetary purposes in the Omnibus Reconciliation Act of 1990 as

a corporate entity created by a law of the United States that —

(A) (i) has a Federal charter authorized by law;
(ii) is privately owned, as evidenced by capital stock owned by private entities or individuals;
(iii) is under the direction of a board of directors, a majority of which is elected by private owners;
(iv) is a financial institution with power to —
   (I) make loans or loan guarantees for limited purposes such as to provide credit for specific borrowers or one sector; and
   (II) raise funds by borrowing (which does not carry the full faith and credit of the Federal Government) or to guarantee the debt of others in unlimited amounts; and

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(B) (i) does not exercise powers that are reserved to the Government as sovereign (such as the power to tax or to regulate interstate commerce); (ii) does not have the power to commit the Government financially (but it may be a recipient of a loan guarantee commitment made by the Government); and (iii) has employees whose salaries and expenses are paid by the enterprise and are not Federal employees subject to title 5.

Some have argued that the above definition omits an essential characteristic — a GSE “benefits from an implicit federal guarantee to enhance its ability to borrow money.”

Congress created GSEs to help make credit more readily available to sectors of the economy believed to be disadvantaged in the credit markets. The following GSEs — Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac) — are investor owned. The Federal Home Loan Bank System and the Farm Credit System — are owned cooperatively by their borrowers. The Financing Corporation and the Resolution Funding Corporation are also organizations that were given GSE status. It should be noted that one well-known GSE, Sallie Mae (Student Loan Marketing Association), recently shed its GSE status and become a wholly private firm.

While the details may vary from one instance to the next, Congress provides that GSEs typically have four characteristics: private ownership; implicit federal guarantee of obligations; activities limited by congressional charter; and limited competition.

Federally Funded Research and Development Centers (FFRDCs)—The FFRDC is a hybrid organization designed to meet a federal need through the use of private

7 The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533, CRS-9
8 Ibid, CRS-9
9 Ibid, CRS-10
10 FFRDCs is a World War II and postwar phenomenon because in World War II there was a national emergency requirement that scientific and engineering talent be rapidly assembled and put to work. After the war, DOD was reluctant to part with this talent and sought ways to keep them in service to the government. The decision to establish private, nonprofit corporations to do contract work and these corporations would be largely dependent on the federal government contract projects. (The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533, CRS-14)
The great strength of FFRDCs appears to lie in their flexibility to assemble teams of technical experts on a project basis. FFRDCs are often difficult to hold accountable. They can have an advantage in competing with private firms for contracts: as nonprofit corporations, they are exempt from most taxation; their facilities and equipment are owned or financed, for the most part, by the federal government, and they receive fees for operating expenses without having to assume business risks or costs associated with competing for most federal work. Federal management of FFRDCs is based upon the Federal Acquisition Regulation (FAR). The FAR provides guidelines to be followed in establishing, organizing, and managing FFRDCs and limits agencies' use of FFRDCs to meet “some long-term research or development need which cannot be met effectively by existing in-house or contractor resources.”

Agency-related nonprofit organizations—Agency-related nonprofit organizations are organizations that share a legal relationship with a department or agency of the federal government. Over the years, departments and agencies have found it useful and advantageous to ask Congress to create, or authorize a department to create, nonprofit organizations to perform functions that the department itself finds difficult to integrate into its regular policy and financial processes. An example could include when a department or agency receives gifts of real property and monetary gifts. The National Park Foundation is the most prominent example of such an organization, but there are others, such as the National Fish and Wildlife Foundation.

There are many different types of relationships with organizations that may share some sort of legal relationship. The federal government may create organizations with predominately a private-sector legal characteristic to implement government policies and regulations. For example, the Securities Investor Protection Corporation (SIPC) and the Public Company Accounting Oversight Board (PCAOB) are agents of and accountable to the government through the Securities and Exchange Commission (SEC). The SIPC is a non-profit corporation under D.C. law, but it is effectively a subsidiary of the SEC because its bylaws are subject to the SEC’s adoption, amendment, or rejection. The SIPC also had borrowing authority and a line of credit from Treasury. Likewise, the PCAOB is a non-profit corporation under the DC Nonprofit Corporation Act. However the members of the PCAOB are appointed by the SEC and

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11 The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-16
12 FAR , 35.017
may be removed for good cause. Also, the rules of the PCAOB are subject to the approval of the SEC. 

*Public-private partnerships or joint ventures* —Public-private partnerships are just what the name implies. It is a contractual relationship where the resources, risks, and rewards of both the public agency and a private company are combined for greater efficiency, better access to capital, and improved compliance with a range of government regulations regarding the environment and workplace. The public’s interests are fully assured through provisions in the contracts that provide for on-going monitoring and oversight.

*Congressionally chartered nonprofit organizations*— Congressionally chartered nonprofit organizations also referred to as “title 36 corporations.” They represent chartering by Congress of private organizations with a patriotic, charitable, historical, or educational purpose. Examples include the Big Brothers and Sisters of America and the American Legion.

*Bailout entities*— 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 those that would indicate control. The existence of these rights does not make the bailed out entity part of the federal reporting entity or any of the component reporting entities. Disclosure of the relationship with the bailed out entities and any actual or potential material costs or liabilities would be appropriate.

*Others*— TBD from additional research and task force.

\[\text{\textsuperscript{11} The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-20}\]

\[\text{\textsuperscript{14} The National Council of Public-Private Partnerships Top Ten Facts about PPPs}\]

\[\text{\textsuperscript{15} CRS Report RL30340, Congressionally Chartered Nonprofit Organizations ("Title 36 Corporations"): What They Are and How Congress Treats Them}\]
APPENDIX—Reference Materials

This appendix includes several reference materials the Board may find helpful. These materials have been presented at previous Board meetings.

High Level Comparison Charts

- Figure 1 Comparison of U.S. Standard Setters Consolidation Criteria
- Figure 2 Comparison of National and International Standard Setters Consolidation Criteria
- Figure 3 Comparison of Definitions of Control of Other Standard Setters

SFFAC No. 2: Entity and Display—Excerpt, paragraphs 1 through 53

High-level Comparison Charts

Figure 1 presents a high-level summary of FASAB’s current guidance in SFFAC 2 regarding conclusive and indicative criteria as well as the requirements of the Governmental Accounting Standards Board and the Financial Accounting Standards Board. Figure 2 presents a high-level summary of selected international requirements on the subject. The most apparent shortcoming in the FASAB literature is that it resides entirely in a concept statement. Of the references provided in Figures 1 and 2, FASAB is the only standard setter that has not included in its standards requirements for consolidation.

In reviewing the consolidation requirements, staff notes that with the exception of GASB, control is the main consideration factor for most other standard-setters. GASB’s focus is financial accountability.
<table>
<thead>
<tr>
<th>Country</th>
<th>Document</th>
<th>Scope</th>
<th>Consolidation Requirement</th>
<th>Definition / Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>FASAB Statement of Federal Financial Accounting Concepts No. 2, Entity and Display</td>
<td>Federal Sector</td>
<td>Financial Accountability and existence of a Significant Relationship where exclusion would cause the financial statements to be misleading or incomplete. (¶ 38)</td>
<td>Conclusive criterion&lt;br&gt;• Any organization, program, or budget account, including off-budget accounts and government corporations, included in the Federal budget section currently entitled “Federal Programs by Agency and Account.”&lt;br&gt;&lt;br&gt;Indicative criteria&lt;br&gt;• It exercises any sovereign power of the government to carry out Federal functions.&lt;br&gt;• It is owned by the Federal Government&lt;br&gt;• It is subject to the direct or continuing administrative control of the reporting entity.&lt;br&gt;• It carries out Federal missions and objectives.&lt;br&gt;• It determines the outcome or disposition of matters affecting the recipients of services that the Federal Government provides.&lt;br&gt;• It has a fiduciary relationship with a reporting entity.</td>
</tr>
<tr>
<td></td>
<td>GASB Statement No. 14, The Financial Reporting Entity</td>
<td>State and Local Government Entities</td>
<td>Financial Accountability</td>
<td>A primary government is financially accountable for legally separate components under either of the following circumstances:&lt;br&gt;&lt;br&gt;a. The primary government appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.&lt;br&gt;b. If an organization is fiscally dependent on the primary government. (¶ 20)</td>
</tr>
<tr>
<td></td>
<td>FASB Statement of Financial Accounting Standards No. 96</td>
<td>Private Sector Entities</td>
<td>Controlling Financial Interest</td>
<td>The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing toward consolidation. (¶ 13)</td>
</tr>
<tr>
<td>Country</td>
<td>Document</td>
<td>Scope</td>
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<td>Definition / Criteria</td>
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<tr>
<td>Australia</td>
<td>Australian Accounting Standard AAS 24, <em>Consolidated Financial Reports</em></td>
<td>Private and public sector entities, excluding those at the “whole-of-government” level for each State, Territory and the Federal Government</td>
<td>Control</td>
<td>Control means the capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity. (¶ 18)</td>
</tr>
<tr>
<td>Canada</td>
<td>CICA Handbook Section 1590, <em>Subsidiaries</em></td>
<td>Profit-oriented enterprises</td>
<td>Control</td>
<td>Control of an enterprise is the continuing power to determine its strategic operating investing and financing policies without the cooperation of others. (¶ .03)</td>
</tr>
<tr>
<td></td>
<td>Public Sector Accounting Recommendations,</td>
<td>Federal, provincial, territorial and local governments</td>
<td>Control</td>
<td>Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization’s activities. (¶ .08)</td>
</tr>
<tr>
<td>International Accounting Standards Board</td>
<td>International Accounting Standard IAS 27,</td>
<td>Private sector parent entities</td>
<td>Control</td>
<td>Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. (¶ 6)</td>
</tr>
<tr>
<td></td>
<td><em>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</em></td>
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<tr>
<td>International Federation of Accountants</td>
<td>International Public Sector Accounting Standard 6,</td>
<td>Public sector entities other than Government Business Enterprises</td>
<td>Control</td>
<td>Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities. (¶ 8)</td>
</tr>
<tr>
<td></td>
<td><em>Consolidated Financial Statements and Accounting for Controlled Entities</em></td>
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</table>
### FIGURE 3: DEFINITIONS OF CONTROL FROM OTHER STANDARD SETTERS

<table>
<thead>
<tr>
<th>DOCUMENT</th>
<th>DEFINITION</th>
</tr>
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<tbody>
<tr>
<td>Australian AAS 24, <em>Consolidated Financial Reports</em></td>
<td>Control means the capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity. (¶ 18)</td>
</tr>
<tr>
<td>CICA Handbook Section 1590, <em>Subsidiaries</em></td>
<td>Control of an enterprise is the continuing power to determine its strategic operating investing and financing policies without the cooperation of others. (¶ .03)</td>
</tr>
<tr>
<td>Public Sector Accounting Recommendations, Section PS 1300, <em>Government Reporting Entity</em></td>
<td>Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization’s activities. (¶ .08)</td>
</tr>
<tr>
<td>IPSAS 6, <em>Consolidated Financial Statements and Accounting for Controlled Entities</em></td>
<td>Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities. (¶ 8)</td>
</tr>
<tr>
<td>IAS 27, <em>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</em></td>
<td>Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. (¶ 6)</td>
</tr>
<tr>
<td>FASB, SFAS 96 <strong>NOTE:</strong> FASB &amp; IASB have an active project on reporting entity. The Board also tentatively decided that the control concept should be used to determine the composition of a group entity and combinations.</td>
<td>The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing toward consolidation. (¶ 13) The Boards have tentatively decided that control should be defined at the concepts level, and should contain both (a) a power element and (b) a benefits element, together with a link between the two.</td>
</tr>
</tbody>
</table>
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, and suggests the types of information each type of report would convey.

3. A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate and recommend accounting standards for the Federal Government. It 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;16 and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles for Federal agencies to be followed for the preparation of financial statements.

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

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16OMB 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.
within the Executive branch of the Federal Government, including the Departments, independent agencies,17 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.

➢ **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.

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17"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.
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 Entity 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.18

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,

18 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, or in the case of multiple responsible entities, the entity with the preponderance of fund activity, will report all assets, liabilities, revenues, and expense of the fund, notwithstanding the fact that another entity has custodial responsibility for the assets.
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 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 Criterion

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
Appendix 1 - Background—Previous Staff Proposal and SFFAC

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.\textsuperscript{19}

**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, \textsuperscript{19}

\textsuperscript{19} Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.
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.20

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

20 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.
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 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.

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