



May 28, 2008

Memorandum

To: Members of the Board

From: Melissa L. Loughan, Assistant Director
Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: Federal Entity ¹

MEETING OBJECTIVES

The Federal Entity project is not on the agenda for the June Board meeting. Instead, staff is providing the Board with an update via this transmittal. There will be an opportunity for members to briefly discuss any issues or questions during the administrative session of the Board meeting.

The primary objective of this update is to let members know that staff developed and distributed a Survey on Boundaries of Federal Reporting Entities to the financial management community. 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.

BRIEFING MATERIAL

This briefing packet contains the following sections and appendices:

- **Survey on Boundaries of Federal Reporting Entities** Survey distributed to CFOs and IGs on May 14, 2008.
- **Appendix 1 – Project Background** This appendix contains a running summary of the project.

BACKGROUND

FASAB formed a task force with representatives from the financial management community to assist staff in developing the standards. At the initial task force meeting, participants agreed it would be helpful to survey the community to determine organizations considered questionable or unique when assessed in determining the boundaries of reporting entities. The survey would seek

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.

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.

At the April 2007 meeting, the Board discussed the recommendations of the Federal Entity Task Force. The Board approved the recommendations for next steps in the Federal Entity project. Specifically, the Board approved distribution of the survey to the federal financial management community. The Board also requested staff to send a separate survey directly to FFRDCs to gather information. Staff is in the process of finalizing that survey and developing contact points at the FFRDCs.

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

Survey on Boundaries of Federal Reporting Entities



Survey Responses Requested by June 30, 2008

May 14, 2008

Memorandum

To: Chief Financial Officers and Inspectors General

Wendy M. Payne

From: Wendy M. Payne, Executive Director

Subject: Survey on Boundaries of the Federal Reporting Entity

The Federal Accounting Standards Advisory Board (FASAB) initiated a project on the Federal Entity. FASAB addresses the entity concept in its SFFAC 2, *Entity and Display*. While SFFAC 2 provides criteria for determining if an organization should be included in the federal entity, questions continue regarding whether certain organizations should be included with an entity. The Federal Entity project will develop criteria defining the boundaries of the reporting entity. The history for this project and issue papers to date is located on our website at <http://www.fasab.gov/projectsfedentity.html>.

FASAB formed a task force with representatives from the financial management community to assist staff in developing the standards. At the initial task force meeting, participants agreed it would be helpful to survey the community to determine organizations considered questionable or unique when assessed. The attached 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. (See Attachment-- Survey on Boundaries of Federal Reporting Entities)

The standards developed from this project will be relevant to all federal agencies. In an effort to involve the federal financial community in this process, we are requesting input about your experiences via this survey. The survey is an opportunity to share examples that may demonstrate weaknesses in current reporting entity concepts, reporting entity boundary issues that may need clarification, or reporting entity areas or organizations that FASAB needs to address. Your input will assist us in more efficiently and effectively developing new standards related to the boundaries of the federal entity and consolidation.

We encourage everyone to take the time to respond to this survey. We are requesting responses be emailed to loughanm@fasab.gov or faxed to 202-512-7366 by **June 30, 2008**. Please feel free to contact Melissa Loughan at 202-512-5976 to discuss any questions you may have. We appreciate your interest in continuing to improve federal financial reporting. Thank you for your time and assistance.

Attachment

Survey on Boundaries of Federal Reporting Entities

Directions: Please provide the answers to the survey based on the experiences of your agency. Please click one box for each yes/no question(s) and sub-question(s). For narrative responses, please click on the grey shading in the box to begin typing your response.

Disclaimer: In the course of developing or updating federal accounting standards, FASAB staff periodically utilize task forces, surveys, and other means of communication to solicit feedback from the federal community. The information contained in this survey is intended to assist staff in preparing materials for the Board's deliberations; it is not intended to reflect authoritative or formal views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Questions on Federal Government's Unique Relationships

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" has 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*.¹ 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.

1. Does your agency have a relationship with² any of the following types of federally related organizations? (See Appendix I for a description of the types of organization.)

- | | | |
|---|------------------------------|-----------------------------|
| a. Quasi official agencies | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| b. Government-sponsored enterprises (GSEs) | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| c. Federally funded research and development centers | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| d. Agency-related nonprofit organizations | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| e. Public/Private Partnerships (PPPs) or joint ventures | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| f. Congressionally chartered nonprofit organizations | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| g. Bailout entities | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| h. Marketing Boards | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| i. Government backed programs | <input type="checkbox"/> Yes | <input type="checkbox"/> No |

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.

¹ The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , Summary

² The term "relationship" broadly refers to all types of relationships your agency may have with the organizations. For example, your agency may use the organization to accomplish your mission, your agency may have created the organization due to legislation, your agency may participate with contractually, etc.

[Empty text box]

2. Does your agency have a relationship with any other unique³ type of organization(s) not listed above that should be considered?

- Yes
- No

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

[Empty text box]

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.

[Empty text box]

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?
b. Or included in a Management Letter?

- a. Yes
 No
- b. Yes
 No

a. If Yes, please provide a brief summary of the finding(s) and note fiscal year(s) reported.

[Empty text box]

b. If Yes, please provide a brief summary of the finding(s) and note fiscal year(s) reported.

[Empty text box]

Questions on SFFAC 2, *Entity and Display*

FASAB addresses the entity concept in its SFFAC 2, *Entity and Display*. The Board issued SFFAC 2 in April 1995, and par. 1 through 53 addresses the entity issue.

1. Par. 41 of SFFAS 2, *Entity and Display*, provides "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."

³ Unique in this context means "quasi governmental' or 'hybrid organizations' which are federally related entities that possess legal characteristics of both the governmental and private sectors."

Par. 42 further states “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.”

- a. In your experience, has the above conclusive criterion proved useful in helping your agency determine if an organization should be included in your reporting entity?
- Yes
 No

Please explain usefulness or questionable results.

- b. Has an organization that meets the conclusive criterion been excluded from the reporting entity?
- Yes
 No

If Yes, please provide name of organization(s) and factors that led to excluding.

2. In addition to the conclusive criterion, there are several **indicative criteria** that should be considered in the aggregate for determining the boundaries of the federal reporting entity. SFFAC 2 par. 43 provides “No single indicative criterion is a conclusive criterion. Nor can weights be assigned to the indicative criteria.” Further, it provides that judgment must be based on a consideration of all of the indicative criteria.

Par. 44 of SFFAC 2 provides the following indicative criteria for determining whether an organization is part of a financial reporting entity:

- 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.

- a. In your experience, has the above proved useful in helping your agency determine if an organization should be included in your reporting entity?
- Yes
 No

Please explain usefulness or questionable results.

- b. Has an organization meeting many of the indicative criteria been excluded from the reporting entity?
- Yes
 No

If Yes, please provide name of organization(s) and explanation for excluding. SFFAC 2 acknowledges much judgment is required in assessing indicative criteria, please discuss pertinent factors that weighed heavy in assessments.

- c. Has an organization been included in the reporting entity that didn't meet the indicative or conclusive criteria?
- Yes
 No

If Yes, please provide name of organization(s) and factors considered that led to including.

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.

Questions about Current Proposal (Staff Paper⁴)

Staff developed an outline paper for consideration by the task force and ultimately the Board. The staff paper provides general principles for the boundaries of the federal reporting entity. The principles are as follows:

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.

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?

- Yes
 No

Please explain.

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?

- Yes
 No

Please explain.

3. Does your agency own stock or have any other ownership interest in another organization?

- Yes
 No

If yes, please list organization(s) and describe ownership.

4. a. 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?

⁴ The Staff Paper is available on the FASAB website at <http://www.fasab.gov/pdffiles/taskforce0208.pdf>

- Yes
- No

Please explain.

- b. Does your answer above depend on the degree of accountability or ownership?

- Yes
- No

Please explain.

- 5. a. 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?

- Yes
- No

Please explain.

- b. Does your answer above depend on the degree of control?

- Yes
- No

Please explain.

- 6. The staff paper allows organizations to be included that may not meet the first two general principles-- not meeting the accountable for/ownership and control principles. This would allow for potential relationships where exclusion would cause the government's financial statements to be misleading or incomplete.

- a. 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?

- Yes
- No

Please explain.

- b. 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?

- Yes
- No

If Yes, please provide name and description.

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?

- Yes
- No

If No, please explain.

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

- Yes
- No

If Yes, please list and explain.

Requested Information Regarding Person Completing Survey:

(Please click on each grey box below to input requested information)

First and Last Name:

Agency Name:

Position Title:

Phone Number:

Email Address:

APPENDIX I

Description of Unique 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*.⁵

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."⁶ *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
 - (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 5.⁷

⁵ The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , Summary

⁶ United States Government Manual, 2006-2007 p. 555

⁷ 104 Stat. 1388-607, Sec. 13112; 2 U.S.C. 622(8).

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.”⁸

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.⁹

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.¹⁰

Federally Funded Research and Development Centers (FFRDCs)—The FFRDC¹¹ is a hybrid organization designed to meet a federal need through the use of private organizations. 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.¹² 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.”¹³

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

⁸ The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-9

⁹ Ibid, CRS-9

¹⁰ Ibid, CRS-10

¹¹ 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)

¹² The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-16

¹³ FAR , 35.017

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 may be removed for good cause. Also, the rules of the PCAOB are subject to the approval of the SEC.¹⁴

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.¹⁵

Congressionally chartered nonprofit organizations-- Congressionally chartered nonprofit organizations also referred to as "title 36 corporations."¹⁶ 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.

¹⁴ The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-20

¹⁵ The National Council of Public-Private Partnerships Top Ten Facts about PPPs

¹⁶ CRS Report RL30340, *Congressionally Chartered Nonprofit Organizations ("Title 36 Corporations")*: *What They Are and How Congress Treats Them*

Project Background

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 comments are detailed in the December Board Minutes.

FASAB staff plans to form a task force to share the outline paper for comment. The task force will include members from the CFO, OIG, and IPA as well as specific representatives from quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies because of their unique nature. The task force will assist in developing the proposed standard on the boundaries of the reporting entity and consolidation. The task force will develop case studies testing the proposed criteria. Staff (and the task force) will concentrate on the areas identified by Board members for consideration. Staff will report back to the Board after meeting with the task force.

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.