

Reporting Entity

Please submit to fasab@fasab.gov

Name of Respondent: Pamela Hanes, Deputy Chief Financial Officer

Organization: National Aeronautics and Space Administration

All responses are requested by July 3, 2013.

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

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

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

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

a. Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.

NASA agrees with the understanding that meeting any one of the 3 principles require that an organization is included in an agency’s financial statements and inclusion allows for disclosure or consolidation. The inclusion principles are reasonable criteria to determine the significance of the federal government’s relationship and involvement with an organization. The inclusion principles are consistent with the concepts of conclusive criterion and indicative criteria in SFFAC 2, paragraphs 41-46 that should be considered in the aggregate for defining a financial reporting entity in the Federal Government.

b. Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.

Overall, NASA agrees that the inclusion principles and related definitions and indicators are helpful and provide guidelines by which to evaluate which organizations should be included in the GPFFR. The section titled, In The Budget, should include acknowledgement of the difference between an organization listed in an agency’s budget and one that is included in the budget but not specifically listed. Consideration may also be given to including a reference to the sections titled, Reporting On Organization – Consolidation Entities Or Disclosure Organizations

and/or Principles for Inclusion in the Government-wide GPFFR, to point to more detailed discussion.

- c. Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.**

NASA agrees with the concept that an organization should be included in the GPFFR if excluding it would be misleading. The concept of providing information that is not misleading is also applicable to the method used to present the organization's financial information, disclosure or consolidation. Our rationale is based on SFFAC 2, Entity and Display, as provided in paragraph 38.

Paragraphs 35-36 of the Statement discuss the concept of "Misleading to Exclude" for organizations that do not meet the inclusion principles. We recommend enhancing the Statement to provide more guidance that may include the criteria to determine "misleading to exclude" and the rationale for this consideration as it pertains to different types of organization and specifically Federally Funded Research and Development Centers. (Organization types may include FFRDCs, museums, performing arts organizations, universities, or venture capital funds and/or include distinction by method of financing, management agreement, level of autonomy, or applicable regulations.)

- d. Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.**

NASA agrees given that flexibility is allowed for different and distinct types of organizations and more guidance is provided related to the inclusion principles and how they relate to different types of organization.

NASA requests that FASAB provide clarity regarding the inclusion principles specifically in relation to Federally Funded Research and Development Centers given the special circumstances that FFRDCs are mandated to operate independently.

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

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

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

a. Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.

NASA agrees with the concept of distinguishing between consolidation entities and disclosure organizations. In order to improve upon the information reported on activities financed by taxpayers, it is important to indicate circumstances where financial statement disclosure is more appropriate than consolidation of the results of each organization's financial activities.

Our rationale is based on the reality that there are varying degrees of the federal government's relationship with organizations – i.e. government ownership, control, or significant influence. The related degree of financial reporting and disclosure should mirror the relationship between the federal entity and an organization.

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

NASA requests that FASAB provide clarity regarding the disposition of the attributes individually and in the aggregate in order to distinguish between consolidation entities versus disclosure organizations. Clarity may be promoted by providing more detail. An example may be:

“Financed through taxes, and other non-exchange revenues”, means the entity receiving funds is specified in an appropriation or that are not a result of goods or services provided to the federal agency/government.

An entity is considered to be “governed by the Congress and/or the President” when its direction is specified in appropriation language.

c. Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.

NASA requests that FASAB provide additional clarity and guidance regarding the reporting attributes as they relate to each type of organization and specifically to Federally Funded Research and Development Centers.

d. Do you agree or disagree with:

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

Please provide the rationale for your answers.

- i. Overall, NASA agrees with the factors in determining disclosures and the objectives for disclosure however, this is another area where consideration should be given to the specific types of organization. As an example, information required in item C – Disclosure organization views/perspective, may be provided by a reporting entity as documented in the current FFRDC sponsoring agreement.
- ii. NASA agrees with the objectives for disclosures in paragraph 72 to provide relevant information to financial report users regarding the impact of the activity with the disclosure organization on the government's financial condition.
- iii. Overall, NASA agrees with the examples of information that would be disclosed, as long as the degree of financial reporting and disclosure takes into consideration the relationship between the federal entity and an organization. In other words, information in response to Item #D could include a summary describing the portion of the reporting entity's assets, liabilities, revenues, expenses, gains, and loses that are applicable to the disclosure organization identifying the types of assets/transactions that make up the majority of the balances. To provide further detail would be more consistent with consolidation versus disclosure. Item #E should provide clarity on the objective of this disclosure and how it relates to the reporting entity's financial reports. In addition, for clarity, we recommend the Statement identify each example to the relevant disclosure objective in paragraph 72.

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

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

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

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

- a. Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.**

NASA agrees that the component reporting entity financial reports should be consistent with data reporting in the GPFFR. It is reasonable to expect the inclusion principles and reporting attributes to be applicable at the component reporting entity level.

- b. Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

NASA agrees that administrative assignments can be identified using the criteria in paragraphs 54-63. In particular our interpretation of paragraph 58 a., Statutes or regulations establishing an organization states that it is assigned to or part of a larger federal organization would include the FAR 35.017 that establishes Federally Funded Research and Development Centers (FFRDC) and references the Master List of FFRDCs maintained by the National Science Foundation (NSF).

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

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

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

NASA disagrees that a component reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. Our rationale is that an organization for which a component reporting entity is accountable may not meet the criteria in paragraph 38 to be a consolidation entity. Given that, the component reporting entity would not consolidate the organization in the financial statements. The sections cited address disclosure also and the question does not.

NASA also disagrees with disclosing any information not directly related to the use of funds provided by the reporting entity and/or activity not directly controlled by the reporting entity.

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

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

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

NASA agrees that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate. Our rationale is that the financial statement presentation by both standards is based on the GAAP, accrual based accounting. In addition, the presentation of a component entity's financial information should be consistent in both their individual financial reports and the government-wide financial reports.

However, NASA does not agree with making this requirement effective prior to receiving guidance related to tie points between budgetary and proprietary accounts or specifying which reports are required. FASB does not require budgetary accounts and addition of proprietary accounts alone will cause out of balance conditions not accepted during annual reporting.

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

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

a. Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.

NASA neither agrees nor disagrees with this statement.

b. Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.

NASA neither agrees nor disagrees with this statement.

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

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

a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.

NASA agrees with the definitions and requirements for related parties.

b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.

NASA agrees with the list of the types of organizations that would be considered related parties.

c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.

NASA does not recommend additional types of organization that should be considered related parties.

d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.

NASA agrees with the list of types of organization that would not be considered related parties.

e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

NASA agrees that the definition for related parties is consistent with generally accepted accounting principles guidance. The list of organizations considered to be related parties is consistent with the definition.

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

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

NASA agrees with the conforming changes, with the exception of item noted in our previous responses: Paragraph 94: The Statement should provide clarity on the criteria for the term "misleading".

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

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

NASA agrees with this effective date as long as technical guidance on the accounting treatment of implementing this requirement is provided prior to the effective date to include guidance related to tie points between budgetary and proprietary accounts and specifying which reports are required when FASB entities are consolidated with FASAB entities.

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

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

a. Do you agree the appendices are helpful in the application of the proposed standards?

NASA agrees. The appendices provided insight on the Board's objectives and concerns, which facilitated understanding the proposed standard in the Statement.

b. Do you believe the appendices should remain after the Statement is issued?

NASA agrees. The appendices will provide clarity on the background of the Statement standards and its applicability to various types of organizations.

c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer.

NASA does not recommend additional examples.

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

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

The other members believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control. The Board deliberated alternatives regarding such organizations, including creating an "exception" similar to the approach taken in SFFAC 2,

but determined an exception would be rules-based rather than principles-based. Such an exception would require more detailed guidance, or “rules,” to aid in determining whether ownership or control of such organizations is expected or intended to be permanent.

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

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

- a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.**

NASA neither agrees nor disagrees with this statement.

- b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.**

NASA neither agrees nor disagrees with this statement.