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JUL 2 2013

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6K17V  
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board exposure draft, "Reporting Entity," dated April 3, 2013. The DoD Consolidated Financial Statements do not include the Non-Appropriated Fund activities. They would need to be disclosed under this proposed standard. This will require some additional Financial Improvement and Audit Readiness effort to meet the established due dates for audit readiness.

Responses to specific questions are enclosed. My contact is Ms. Maryla E. Engelking. She can be reached at [maryla.engelking@osd.mil](mailto:maryla.engelking@osd.mil) or 703-602-0155.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton  
Deputy Chief Financial Officer

Enclosure:  
As stated

## DoD Responses to FASAB Exposure Draft, "Reporting Entity," Dated April 3, 2013

***Department of Defense (DoD)***

Please submit to [fasab@fasab.gov](mailto:fasab@fasab.gov)

**Name of Respondent:** *Mark E. Easton*

**Organization:** *Office of the Deputy Chief Financial Officer*

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.**

**DoD Response:** Agree. The inclusion principles conform to the conclusive and indicative criteria for including components in a reporting entity described in Statement of Federal Financial Concepts 2, Entity and Display. Control also discussed as a primary criteria within the Financial Accounting Standards Board Proposed Statement of Financing Accounting Concepts, The Reporting Entity.

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

**DoD Response:** Agree. The inclusion principles, along with the illustrations in Appendix C, are understandable. Appendix C is especially helpful in demonstrating the nuances of the criteria.

- 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.**

**DoD Response:** Agree. It would be misleading to exclude the organization if it does not meet the inclusion principles, as the consolidated financial statements would not be complete, accurate, or presented fairly.

- 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.**

**DoD Response:** Agree. The inclusion principles are comprehensive and include all potential organizations that the government may be responsible for consolidating whether by budget authority, ownership, or control. It is suggested, however, that some additional guidance be added to distinguish museums consolidated under this proposed standard and museums disclosed under Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SSFAS) 29, Heritage Assets and Stewardship Land. There may appear to be some conflicting guidance in reading both standards.

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.

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

**DoD Response:** Agree. The federal government has relationships with organizations which have a greater degree of autonomy than those considered consolidation entities. Entities receiving limited or no funding from tax revenues and providing only rewards or risks to the federal government should not be reported the same as consolidated entities. In order for the GPFFR to be complete, disclosure entities must be included.

2. 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.

DoD Response: Agree. Attributes used to make the distinction between consolidation and disclosure organization entities fall in line with the inclusion principles. No additional attributes are noted, at this time.

1. 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.

DoD Response: Agree. Assuming that an organization is to be included in the GPFFR, the attributes are adequate to make the distinction between consolidation and disclosure organization. The attributes provide a principle based exercise to determine whether an entity should or should not be included in the GPFFR and how they should be reported, as consolidated entities or disclosure entities. No additional attributes are noted, at this time.

- 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),

DoD Response: Agree. The factors seem to assure that disclosures made to the financial statements are presented fairly and without any material misstatements.

- ii. the objectives for disclosures (see par. 72), and

DoD Response: Agree. The objectives seem adequate to assure that disclosures made to the financial statements are objective and present any potential risks.

- iii. the examples provided (see par. 73)?

DoD Response: Agree. The examples provided should provide complete and accurate disclosures to the financial statements.

Please provide the rationale for your answers.

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

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

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

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

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

**DoD Response: Agree.** In order to fulfill the completeness assertion, component entities need to report all organizations for which they are accountable, including consolidation and disclosure organizations.

This is likely the most challenging aspect for DoD. Each DoD reporting entity would need to determine who is receiving the funds and how DoD influences the organization, including any reporting requirements that DoD has implemented. Once the entities are identified, they would need to implement a process and/or policy to modify their financial reporting requirements to include the "consolidated" and/or "disclosure" entities. Due to the nature of the relationships (e.g., entities may be funded by more than one DoD reporting entity) they may need to determine who will consolidate and/or disclose the information within the DoD. The newly identified entities would likely need to be audit ready - although, they may already have a clean opinion as they may be commercial entities and may have covenants / requirements for clean opinions. The DoD would need to determine some modified Financial Improvement and Audit Readiness requirements specific to these entities.

Additionally, auditors would have to expand their procedures to address these requirements. Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, would be revised. There will likely be new financial reporting requirements as well.

- 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.

**DoD Response:** Agree. The administrative assignments can be identified and are consistent with the three inclusion principles. The criteria appear to be appropriate and comprehensive, especially with the inclusion of the "Misleading to Exclude/or Misleading to Include" paragraphs. Certain entities, although administratively assigned to another entity should be reported separately. Financial information for certain entities needs to be masked within a consolidated entity.

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-**Error! Reference source not found.** 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.**

**DoD Response:** Disagree. This proposal seems to be contradictory to what is described in paragraph 43 of the Exposure Draft. An entity receiving donations, as opposed to appropriations, should be considered a disclosure entity, and not consolidated.

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.**

**DoD Response:** Agree. Since the objective is to incorporate all required components into the GPFFR, entities with differences in accounting standards should still be consolidated, in accordance with SFFAS 34. In addition, a disclosure of the differences in accounting methodologies should be required. FASB reporting entities need to provide intragovernmental balances based on FASAB standards to allow for the proper elimination of intragovernmental activity. Intragovernmental differences are one of the causes of the disclaimer the GPFFR receives each year.



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.**

**DoD Response:** Agree. If the central banking system is reported as a disclosure entity, it should be subject to the minimum disclosure requirements mentioned within this exposure draft.

- 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.**

**DoD Response:** Yes. All segments of the government that are not consolidated entities should be required to provide disclosure information. This is consistent with GAAP principles and enhances government transparency and accountability to the public. However, we do not know of any specific entities that fall into this category.

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.**

**DoD Response:** Agree. The definition and requirements of related parties are consistent with GAAP terminology and disclosures.

- 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.**

**DoD Response:** Agree. The list of organizations appears to define the vast majority of potential related parties.

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

**DoD Response:** No additional organizations are noted, at this time.

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

**DoD Response:** Agree. The list of exclusions appears appropriate.

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

**DoD Response:** No additional exclusions are noted, at this time.

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.**

**DoD Response:** Agree. The changes made to SFFAC 2 are consistent with the Exposure Draft guidance.

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.**

**DoD Response:** Agree. The effective date seems reasonable to allow Component Reporting Entities to fulfill these requirements and update their accounting systems.

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?**



**DoD Response:** Agree. The examples provided help demonstrate the inclusion principles out lined in the exposure draft, as well as the four attributes that distinguish what to consolidate or disclose. The flowchart summarizes the standard in a clear and concise way. "A picture is worth a thousand words."

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

**DoD Response:** Agree. The guidance will assist Component Reporting Entities in adopting the new standard.

**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.**

**DoD Response:** No changes at this time. The examples provided are helpful, they should not be considered all encompassing.

**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.**

**DoD Response:** No unique situations are noted, at this time.

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.**

**DoD Response:** Disagree. The proposed standard appropriately distinguishes between consolidation entities and disclosure entities, including receiverships, conservatorships, and interventions. The Federal Government assumes some risk in these endeavors and does exhibit some control. Therefore, these entities need to be included, but it is important that the disclosures clearly state that they are not part of the Federal Government. It is important for the Federal Government to be as transparent as possible, especially when it involves public funding. Additional explanation within the disclosure could emphasize the government’s position.

- 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.**

**DoD Response:** Disagree. This proposed standard attempts to establish which entities need to be included in the GPFFR. It also establishes which entities need to be consolidated and which entities need to be disclosed. Receiverships, conservatorships, and interventions need to be disclosed since they pose a potential risk to the Federal Government. Any additional guidance as to the proper accounting for these entities, or risks assumed, could be resident in another standard, but disclosure requirement are appropriately resident in this proposed standard.