



November 29, 2012

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Federal Reporting Entity--Tab A¹**

PRE-MEETING OBJECTIVES

- Ballots were provided by email on November 27th and are due by December 12, 2012.
- Alternative views are due by December 18th.

MEETING OBJECTIVES

- Time is available on the December 19th agenda to address any alternative views that warrant considering edits to the main basis for conclusions. If edits are needed, the objective is to agree to the edits so that the ED can be issued shortly after the meeting. If no edits are needed, the time will be used to update members regarding projects not yet on the meeting agenda.

BRIEFING MATERIAL

Attachments:

- Track-changes ballot draft exposure draft (ED)
- Clean ballot ED
- Ballot
- Amendments to SFFAC 2, *Entity and Display*, proposed in the ED (to facilitate your review of the ED)

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.

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

MEMBER FEEDBACK

If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov.



Federal Accounting Standards Advisory Board

REPORTING ENTITY

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by **March 15, 2013**

Month day, year

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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation to comment, or preliminary views document may be issued before an exposure draft is released on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board"](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

December 13, 2012

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Reporting Entity*, are requested. Specific questions for your consideration appear on pages 5-9 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by March 15, 2013.

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All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

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We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing has been scheduled at 9:00 AM on April 24, 2013, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by April 2, 2013, if you wish to provide oral comments at the public hearing.

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Sincerely,

Tom L. Allen
Chairman

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EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPF~~FR~~s). The principles proposed to guide financial reporting recognize the complex diverse organizations possessing varying legal designations (for example, government agencies, not-for-profit organizations, corporations) that are used to address public policy challenges. The principles herein are not intended to establish whether an entity is or should be considered a federal agency for legal or political purposes. Rather, this exposure draft (ED) provides principles to guide preparers in determining what organizations ~~should be included in the reporting entity's GPF~~FR for financial accountability purposes.

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The government-wide GPF~~FR~~ should include all organizations (1) budgeted for by elected officials of the federal government, (2) owned by the federal government, or (3) controlled by the federal government with ~~risk of loss or expectation of benefits~~. In addition, the Board is proposing that an organization be included in the government-wide GPF~~FR~~ if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. When any of these ~~conditions exists~~, the Board believes information regarding the organization is necessary to provide accountability.

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This ED also provides criteria for determining the most appropriate means to include information about these organizations, based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis. Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole. Two means of including information are provided—consolidated financial statements and disclosures.

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Comment [GAO1]: BD edit

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations financed by the taxpayer, governed by elected or appointed officials, imposing risks and rewards on the taxpayer, and providing goods and services on a non-market basis. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in the aggregate – the net cost financed by taxpayers, the assets available for use, and the liabilities to be settled in the future. Organizations to be included in the consolidated financial statements within the GPF~~FR~~ are referred to as “consolidation entities.”

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Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and financial position of the reporting entity. Instead, information about these types of discrete organizations should be disclosed in notes to the consolidated financial statements of reporting entities applying federal financial accounting standards. The disclosures should reveal the

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nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Organizations to be disclosed in the GPFFR are referred to as "disclosure entities."

Comment [ML3]: HS edit

The proposal provides that the GPFFR for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. The Board proposes each component reporting entity include all organizations for which it is accountable. This includes all consolidation and disclosure entities administratively assigned to it.

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Comment [ML4]: HS suggested edit

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In addition to the relationships that lead to organizations being included in the GPFFR based on the principles described above, the federal government may have relationships with other parties. The Board also proposes to require disclosures, if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." The disclosures would provide information about the nature of the government's relationship with the related party and other information to aid in understanding the relationship and its potential financial reporting impact, including exposures to risk of loss or potential gain as a result of the relationship.

Comment [WP5]: Per a request from Tom Allen to make clear that these parties do not meet the inclusion principles.

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The proposed Statement would be effective for periods beginning after September 30, 2015. Earlier implementation is encouraged.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This Statement would improve federal financial reporting by improving guidance for identifying organizations to include in the financial reports of the government-wide reporting entity and component reporting entities. When implemented, GPFFRs will provide users with comprehensive financial information about federal reporting entities, and relevant activities and relationships to meet federal financial reporting objectives.

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

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QUESTIONS FOR RESPONDENTS

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. The Board plans to hold a public hearing on April 24, 2013, and you are welcome to offer oral comments at that time. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by April 2, 2013, if you wish to provide oral comments at the public hearing.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposal may be modified before a final Statement is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

All comments are requested by March 15, 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.

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Refer to paragraphs 19-35 of the proposed standards and paragraphs A12- A35 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.
- b. Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.
- c. Do you agree or disagree that an organization should be included in the GPFRR 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.

Q2. The Board proposes distinguishing between two types of entities in GPFRRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure entities. Consolidation entities generally are (1) taxpayer supported 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 taxpayer, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure entities are those that (1) receive limited or no taxpayer support, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) are more likely to provide goods and services on a market basis, and/or (4) impose limited risks and rewards on the taxpayers.

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

Refer to paragraphs 36- 52 and 63-75 of the proposed standards and paragraphs A30-A51, A60-A62 and A68-A77 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 and disclosure entities? Please provide the rationale for your answer.
- b. Do you agree or disagree with the attributes used to make the distinction between consolidation and disclosure entities? Please provide the rationale for your answer.
- c. Do you agree or disagree with
 - i. the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 68),
 - ii. the objectives for disclosures (see par. 71), and
 - iii. the examples provided (see par. 72)?

Please provide the rationale for your answers.

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

- a. the scope of the budget process,
- b. whether accountability is established within a component reporting entity, or
- c. 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 53-62 of the proposed standards and paragraphs A52-A58 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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 entities administratively assigned to it? Please provide the rationale for your answers.

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to report in its GPFFR all organizations (which include Funds) 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 different sources—appropriations and donations—which are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 53-63 of the proposed standards and paragraphs A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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

Q5. For consolidation entities, the Statement would require consolidation of FASAB and Financial Accounting Standards Board (FASB) based information without conversion of FASB-based information to a FASAB basis.

Refer to paragraph 64- 65 of the proposed standards and paragraphs A63-A67 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.

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Moved down [1]: SFFAC 2 identified certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises and Bailout Entities) that should not be considered part of the government-wide reporting entity. The Board is proposing new principles that should be applied to the entities previously excluded and conclusions reached regarding whether the entities are included in the general purpose federal financial reports. If a previously excluded entity is to be included based on these principles, principles are proposed to decide whether the entity is a consolidation or disclosure entity. These decisions would affect whether such entities are included in the general purpose federal financial reports and, if so, how they are reported upon. SFFAC 2 is being amended to remove these specific provisions¶

Refer to paragraph A85 in Appendix A - Basis for Conclusions for a discussion and related explanation.¶

Do you agree or disagree that the principles should be applied to all entities, including entities previously excluded by SFFAC 2, and a conclusion reached about whether each entity is included in the general purpose federal financial reports and, if so, through consolidation or disclosure? Please provide the rationale for your answer.

Q6. 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 are generally included and those generally excluded.

Refer to paragraphs 76-85 of the proposed standards and paragraphs A78-A80 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the related party definition and requirements? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.**
- c. **Are there additional exclusions that should be considered? Please provide the rationale for your answer.**
- d. **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.**
- e. **Are there additional organizations that generally should be considered as a related party? Please provide the rationale for your answer.**

Q7. 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 the federal reporting entity's GPFRR from the concepts statement because criteria will be in a standards statement. In addition to these criteria, SFFAC 2 identifies certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that should not be considered part of the government-wide reporting entity. The Board is proposing new principles that should be applied to the entities previously excluded and conclusions reached regarding whether the entities are included in the GPFRR. If a previously excluded entity is to be included based on these principles, principles are proposed to be used to decide whether the entity is a consolidation or disclosure entity. These decisions would affect whether such entities are included in the GPFRR and, if so, how they are reported upon. SFFAC 2 is being amended to remove these specific exclusions.

Refer to paragraphs 86-100 of the proposed standards and paragraphs A81-A84 in Appendix A – Basis for Conclusions for a discussion and related explanation.

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

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Comment [ML8]: HS suggested edit

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Refer to paragraph A85 in Appendix A - Basis for Conclusions for a discussion and related explanation.¶

Do you agree or disagree that the principles should be applied to all entities, including entities previously excluded by SFFAC 2, and a conclusion reached about whether each entity is included in the general purpose federal financial reports and, if so, through consolidation or disclosure? Please provide the rationale for your answer. ¶

Comment [WP9]: Mr. Steinberg suggested questions 7 and 9 be combined since they both relate to concepts.

b. Do you agree or disagree that the principles should be applied to all entities, including entities previously excluded by SFFAC 2, and a conclusion reached about whether each entity is included in the general purpose federal financial reports and, if so, through consolidation or disclosure? Please provide the rationale for your answer.

Q8. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2015. Refer to paragraph 100 of the proposed standard.

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

Q9. 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 for the full explanation.

- a. **Do you agree the appendices are helpful in the application of the proposed standards?**
- b. **Do you believe the appendices should remain after the Statement is issued?**
- 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.**

Q10. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Q11. AV Question

INTRODUCTION

PURPOSE

1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**¹ (GPFFR) for the government-wide reporting entity should be broad enough to reflect the Congress and/or the President's accountability for those organizations. In addition, **component reporting entity** financial reports should allow the Congress and the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards.² Standards that can be used to identify organizations to include in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meeting federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such entities are considered "consolidation entities" or "disclosure entities",³ and what information should be presented. This guidance, together with existing guidance, will ensure that users of GPFFRs are provided with comprehensive financial information about federal reporting entities and their relationships so that federal financial reporting objectives are met. This Statement requires reporting entities to disclose certain information about disclosure entities administratively assigned to them. It does not require new **disclosures** regarding consolidation entities administratively assigned to reporting entities. Any existing required disclosures for the consolidated financial statements of the reporting entity, which include the consolidation entities, would continue to apply.
3. This Statement also guides preparers of GPFFRs in identifying related parties and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude information. There are specific disclosures regarding related parties that are in addition to those required regarding disclosure entities.
4. The guidance recognizes an organization's legal form may not reflect the substance of the relationship between the federal government and the organization. As such, the legal form or designation of an organization does not always determine whether it should be reported in the government-wide GPFFR. Even in cases where legislation indicates an organization

¹ Terms defined in the Glossary are shown in bold-face the first time they appear.

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

³ "Consolidation entities" and "disclosure entities" are terms used to distinguish between entities based on the degrees to which the entity is (1) supported by taxpayers, (2) governed by elected or appointed officials, (3) imposing risks on the taxpayer, and (4) providing goods and services on a market or non-market basis. See par. 36 - 52 for more information.

Comment [ML10]: HS edit

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Comment [GAO11]: BD edit

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Comment [GAO12]: Staff edit, based on comment from SM to address concern regarding confusion about different disclosures

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is “not an agency or instrumentality” of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity’s GPFFR. Inclusion results from a need for accountability given the nature of the relationship between the federal government and the organization but inclusion does not change the legal form of the organization.

MATERIALITY

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE AND APPLICABILITY

6. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 65 of this Statement also applies to federal entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable entities preparing and issuing GPFFRs to determine:
- whether SFFAS 34 is applicable to an organization,
 - what organizations should be included in the GPFFR of entities applying SFFAS 34,
 - the manner in which information should be presented for organizations included in the GPFFR, and
 - what disclosures, if any, are needed regarding related parties.

Comment [WP13]: Staff edit to clarify that Par. 65 applies to both types of entities.

Comment [WP14]: HS Edit to avoid confusion resulting from alternating use of included/reported

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DEFINITIONS

Definitions in paragraphs 8 through 12 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

Comment [GAO15]: Sentence regarding boldface terms moved to page first time bold face term is introduced.

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8. **Reporting Entity** Reporting entities are entities that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁴ The criteria focus on whether an entity’s:

- management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.

⁴ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entities for General Purpose Financial Reporting.

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- b. financial statements would provide a meaningful representation of operations and financial condition.
 - c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.
9. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR includes all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.
 10. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.⁵ Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
 11. **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶ See paragraphs 24 - 33.
 12. **Related parties** Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

Comment [ML16]: Include RP definition

ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

13. The federal government is unique because its constitutionally established powers, motivations, and functions are different from those of all other organizations. It is an extremely complex organization responsible for the common defense and general welfare of the nation. Although there are various perspectives⁷ for viewing the federal government (for example, a budget or program perspective), an organizational approach was established in SFFAC 2⁸ as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations, and Funds, for which the federal government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

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⁵ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁷ SFFAC 2, par. 13-28, discusses the budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

⁸ SFFAC 2, par. 29-38.

14. Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that serve varied purposes and have complex governance structures and finances. In some cases, disclosing financial and other information in the notes about an organization rather than consolidating financial and other information about all organizations may better meet reporting objectives.
15. This Statement first establishes the principles for identifying organizations to include in the government-wide GPFRR (see Principles for Inclusion in the Government-wide GPFRR beginning with paragraph 19) and then distinguishes between consolidation entities and disclosure entities (see Reporting on Organizations—Consolidation or Disclosure beginning with paragraph 36).
16. This Statement also establishes that component reporting entities must include all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFRRs are complete (see Component Reporting Entities beginning with paragraph 57).
17. The Statement provides guidance to classify included organizations as consolidation or disclosure entities (see GPFRR Consolidation and Disclosure beginning with paragraph 63).
18. Lastly, the Statement provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them (see Related Party beginning with paragraph 76).

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PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFRR

19. This Statement provides three principles for determining which organizations or Funds should be included⁹ in the government-wide GPFRR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 35).
20. An organization¹⁰ meeting any one of the three principles below is included in the government-wide GPFRR:
 - a. In the Budget
 - b. Majority Ownership Interest
 - c. Control with Risk of Loss or Expectation of Benefit

IN THE BUDGET

21. 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” should be included in the government-wide GPFRR

⁹ “Included” means the information is either consolidated or disclosed.

¹⁰ Organization is used broadly to encompass organizations and Funds in this Statement.

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unless it is a non-federal organization receiving federal financial assistance.¹¹ Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Risk of Loss or Expectation of Benefit*) to determine whether they should be included in the government-wide GPFRR.

MAJORITY OWNERSHIP INTEREST

22. The federal government (directly or through its components) may have an ownership interest¹² in an organization. An ownership interest is a legal claim on the net residual assets of an organization such as holding shares or other formal equity instruments. The holding of an ownership interest usually but not always entitles the holder to an interest in voting rights.
23. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets¹³ of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure entity in the government-wide GPFRR.¹⁴

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CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

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

Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial resources or non-financial benefits.¹⁵ Both the power and either the risk of loss or expectation of benefits aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with risk of loss or expectation of benefit is referred to as “control.”

25. Control refers to the ability to control, whether or not that ability is actively exercised, and should be assessed at the reporting date regardless of the federal government’s ability to change it in the future. In determining whether control exists, it is necessary to determine

¹¹ As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

¹² “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Glossary FASAB Handbook as of June 30, 2011.*

¹³ For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

¹⁴ Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. However, the organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

¹⁵ For example, a non-financial benefit would arise when the federal government receives a service or a service is provided to others on its behalf.

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the substance of the relationship between the federal government and the organization as it may not be completely reflected by the legal form of the relationship.

26. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an organization. Rather, it is the federal government's authority to determine or influence the policies governing those activities that indicates control.
27. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall on a continuum. At one end of the continuum, it is clear that an organization does not have the power to act independently and is controlled by the federal government—such as an executive department. At the other end, the organization has the power to act independently and, while the federal government may have a level of influence, it is clear that the federal government does not have control—such as a foreign government.

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Indicators of Control

28. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
29. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:
 - a. establish or amend the fundamental purpose and mission of the organization,¹⁶ which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;
 - b. appoint or remove a majority of the governing board members;
 - c. direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or
 - d. dissolve the organization thereby having access to the assets and responsibility for the obligations.

¹⁶ Congressionally chartered nonprofit organizations identified under Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 30 or another indicator in this paragraph.

30. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:
- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
 - b. direct the ongoing use of the organization's assets;
 - c. direct investment decisions including to liquidate investments;
 - d. appoint or remove key executives or personnel;
 - e. approve the budgets or business plans for the organization;
 - f. require audits;
 - g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
 - h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
 - i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
 - j. establish, rescind, or amend the organization's governance framework;
 - k. establish limits or restrictions on borrowing and investments of the organization; or
 - l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

Situations Where Control Does Not Exist

31. Because of the federal government's broad powers and economic influence, control should not be inferred from either:
- a. authority to exercise regulatory powers over an organization; or
 - b. economic dependency of the organization on the federal government.
32. The federal government has the power to regulate many organizations by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of organizations by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated organizations make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes

of this Statement because the federal government's interest in these organizations extends only to the regulatory aspects of the operations.

33. Certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many nonprofit organizations rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence organizations dependent on federal funding or business through purchasing power, the federal government typically does not govern their financial and operating policies.

MISLEADING TO EXCLUDE

34. There may be instances when an organization does not meet the inclusion principles in paragraphs 19 through 30 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.¹⁷
35. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

REPORTING ON ORGANIZATIONS—CONSOLIDATION OR DISCLOSURE

36. The principles above should be used to assess which organizations to include in [the](#) GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure entities” ~~as that distinction will determine~~ how the organizations will be reported. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis.¹⁸ Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

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CONSOLIDATION ENTITIES

37. The entities that should be included in consolidated financial statements in [the](#) GPFFR are referred to as “consolidation entities.” Generally, an entity is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the entity is:
- taxpayer supported, that is financed through taxes, fees, and other non-exchange revenues.
 - governed by the Congress and/or the President.
 - ~~imposing or may impose risks and rewards on the taxpayer.~~

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

¹⁸ Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of goods or services.

d. providing goods and services on a non-market basis.

38. Entities listed in the budget, except for non-federal organizations receiving federal assistance (see par 21), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.

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39. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

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DISCLOSURE ENTITIES

40. The federal government may have relationships with organizations afforded a greater degree of autonomy than consolidated entities. Some entities may exercise powers that are reserved to the federal government as sovereign. Other entities may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as entities in receivership. To avoid obscuring information about these more autonomous organizations while still being accountable, such entities are to be disclosed rather than consolidated in GPFRRs. Hereafter, these organizations are referred to as "disclosure entities."

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41. Disclosure entities may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.

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42. Disclosure entities receive limited or no taxpayer support. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the taxpayers. Disclosure entities may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹⁹

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43. Disclosure entities may include but are not limited to: quasi-governmental and/or financially independent entities, entities in receiverships and conservatorships, and entities owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure entity types are presented to assist in identifying entities that are disclosure entities. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

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Quasi-Governmental and/or Financially Independent Entities

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44. Quasi-Governmental and/or Financially Independent Entities differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure entities are on a continuum that considers such factors as whether the governance is through

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¹⁹ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

appointed officials versus a structure that vests most decision-making authorities in a governing body to insulate the organization from political influence; whether the entity is financed primarily through taxes and other non-exchange revenues versus limited or no taxpayer support; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis.

45. Governance differences typically lead to greater independence. Characteristics may include the following:
- a. Longer appointments of key executives or governing boards to allow these appointees a degree of independence from the Congress and/or the President
 - b. Delegated operational authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Private sector legal characteristics, such as not-for-profit status under the Internal Revenue Code
 - d. Exemption by statute from laws or regulations dealing with the federal budget, funds, personnel, ethics, acquisition, property, or works
 - e. Voluntary association with the federal government and shared purposes to implement government policies
46. Financial differences typically lead to greater fiscal autonomy. Characteristics may include the following:
- a. Primarily funded from a source other than appropriations
 - b. Delegated financial authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Principally engaged in selling goods and/or services to organizations outside of the federal government
 - d. Intended, in the normal course of its operations, to maintain its operations and meet its liabilities from revenues received from sources outside of the federal government
47. While not all entities of a given type will meet the characteristics above, examples of the types of entities that may be quasi-governmental and/or financially independent entities include certain **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each entity should be assessed objectively since there are likely to be differences among the entities within these example types such that some should be consolidation entities and others disclosure entities.

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Receiverships and Conservatorships²⁰

48. The federal government may take control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. Receiverships or conservatorships are established to liquidate failing financial institutions or to guide such institutions back to safe and sound conditions.²¹ Entities controlled or owned through receiverships or conservatorships are likely to be disclosure entities.

Federal Government Intervention Actions Resulting in Control or Ownership

49. In exceptional circumstances such as economic instability or a national security crisis, the federal government may intervene in organizations not previously meeting the inclusion principles. Interventions arise because of the federal government's broad responsibility for the well-being of the country. Some, but not all, interventions establish ownership or control such that the organization then meets the inclusion principles. Although intervention actions are not expected to be permanent, they may not include a specific time limit.
50. Typically federal government intervention actions are not routine activities. Strategic planning documents are unlikely to include objectives to routinely initiate such interventions or to permanently operate organizations acquired through interventions.
51. Examples of intervention actions resulting in control or ownership include:
- The federal government provides financial support and, in doing so, obtains control of an established organization but expects to relinquish or cede control.
 - The federal government acquires an ownership interest in an organization but expects to end its interest as soon as practicable.
52. Intervention actions that exist at fiscal year-end must be assessed to confirm the resulting control or ownership is not expected to be permanent. If the intervention activities are not expected to be permanent or other characteristics of disclosure entities exist, organizations controlled or owned as a result of intervention actions would be disclosure entities.

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COMPONENT REPORTING ENTITIES

53. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity²² and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs.

²⁰ This type differs slightly from federal interventions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

²¹ For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

²² SFFAC 2, par. 38.

Therefore, component reporting entities must identify and include in their GPFFRs all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

54. A component reporting entity's GPFFR should include all organizations that would allow the Congress and the President to hold its management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and enhance accountability to the public. Each component reporting entity is accountable for all consolidation and disclosure entities administratively assigned to it.
55. Administrative assignments to component reporting entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:²³
- a. Scope of the Budget Process
 - b. Accountability Established Within a Component Reporting Entity
 - c. Misleading to Exclude and/or Misleading to Include

Comment [WP20]: HS edit (including footnote) – the three items listed are not "areas."

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SCOPE OF THE BUDGET PROCESS

56. Consolidation and disclosure entities subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
- a. all consolidation entities listed within its section of the *Budget of the United States Government: Analytical Perspectives--Supplemental Materials* schedule [entitled "Federal Programs by Agency and Account"](#) and
 - b. all disclosure entities included within its Congressional Budget Justification.²⁴

ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

57. Consolidation and disclosure entities for which a component reporting entity has been assigned accountability responsibilities should be included in its GPFFR. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional

²³ Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.

²⁴ The Congressional Budget Justification is the document submitted annually to Congress to justify an organization's budget request.

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judgment. Indicators²⁵ that accountability has been established in the component reporting entity include:

- a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.²⁶
- b. An organization is included in the component reporting entity's published organization chart.
- c. The component reporting entity acquires and/or monitors²⁷ ownership interests in organizations where there are ongoing responsibilities²⁸ such as:
 - i. coordinating and/or conveying input on strategic plans,
 - ii. providing appropriated funds to the organization and receiving requests for funding in the current and/or future years,
 - iii. administering any federal grants or contracts awarded to the organization,
 - iv. monitoring activities and/or reporting on outcomes, or
 - v. monitoring the value of the ownership interest.
- d. A controlled organization²⁹ was established by statute or by action of the component reporting entity to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include those in which the component reporting entity:
 - i. approves bylaws including any amendments,
 - ii. is represented on the governing board (for example, as an ex-officio member),
 - iii. appoints members of the governing board,
 - iv. coordinates and/or conveys input on strategic plans,
 - v. monitors organizational performance,
 - vi. approves budgets, operating plans, or contracts with others,
 - vii. establishes and executes cooperative agreements with the organization,

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²⁵ These indicators provide evidence that accountability was established or was assigned to a component reporting entity. Meeting any one would typically mean accountability was established.

²⁶ For example, the U.S. Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the U.S. Department of Commerce.

²⁷ Such responsibilities may be assigned to a program office.

²⁸ These responsibilities are examples of actions or activities performed by the component reporting entity that are indicative of monitoring an ownership interest in an organization, which is an indicator of accountability.

²⁹ Where control exists at the government-wide level based on paragraphs 24-33.

- viii. administers federal grants to or contracts with the organization,
- ix. testifies before Congress regarding entity performance and objectives, or
- x. has significant financial transactions or balances that indicate ongoing managerial involvement.

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

- a. Disclosure entities should be included in the GPFFR of each component reporting entity assigned such responsibilities.
- b. Consolidation entities should be administratively assigned to only one component reporting entity.³⁰ The component reporting entity assigned the largest share³¹ of responsibilities described in paragraph 57 generally should include the consolidation entity.

59. If a disclosure entity has not been administratively assigned to a consolidation entity, the disclosure entity should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosure entity or (b) with which its mission most closely aligns.

MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

60. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 56-59 yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFFR.³²

61. There may be instances where applying the principles in paragraphs 56-59 to consolidation entities, would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger entity while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

62. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of

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³⁰ Note that the component reporting entity to which a consolidation entity is administratively assigned may also be administratively assigned to a higher-level component reporting entity.

³¹ Largest share as used here is based on the most significant administrative role.

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

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professional judgment. Examples³³ of indicators that it may be misleading to include an organization are:

- a. The budget submission is combined for procedural purposes only, as indicated by:
 - i. the budget request not being approved by component reporting entity management, or
 - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
- b. The component reporting entity provides no direct oversight of the organization.
- c. The organization's funding is separate from the component reporting entity's funding.
- d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
- e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time.
- f. The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR.

GPFFR CONSOLIDATION AND DISCLOSURE

CONSOLIDATION ENTITIES

63. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position³⁴ of the federal government and the cost of operations financed by taxpayers. Component reporting entities should consolidate the financial information for all consolidation entities administratively assigned to them. Consolidation³⁵ aggregates the individual financial amounts of entities comprising a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

³³ The indicators listed in 62 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

³⁴ The consolidated financial statements should include amounts and balances, consistent with applicable accounting standards, even if the amounts and balances arise from or are supported by different funding sources (e.g., appropriations or donations).

³⁵ Consolidation is a method of accounting that combines the accounts of those entities line by line on a uniform basis of accounting and eliminates balances and transactions among the entities. For selected financial statements such as the statement of budgetary resources, a combined financial statement which does not eliminate balances and transactions among the entities is acceptable.

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64. Consolidation entities as defined herein are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.
65. SFFAS 34 recognizes that a limited number of federal entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFRRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

DISCLOSURE ENTITIES

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66. Maintaining a distinction between the finances of consolidation entities and disclosure entities will more effectively meet federal financial reporting objectives. However, federal financial reporting objectives cannot be fully met without information regarding disclosure entities.
67. For those organizations classified as disclosure entities, this Statement provides for judgment by the preparer in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure entities should be disclosed in accordance with **Disclosure Requirements** as detailed in par. 69 to 72 below after considering the factors listed in par. 68.

Factors in Determining Disclosures

68. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining **the information that should presented for disclosure entities**. Beyond materiality, the following factors³⁶ should be considered in making judgments about the extent of appropriate disclosures:
- a. **Relevance to reporting objectives** – Significance of the disclosure entity to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the consolidation entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.

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³⁶ The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

- b. ***Nature and magnitude of the potential risks/exposures or benefits associated with the relationship*** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure entity’s operations.
- c. ***Disclosure entity views/perspective*** – (Entities determined to be a disclosure entity in accordance with paragraphs 40 — 43.) Information about how the disclosure entities account for or report on their relationship with the federal government. For example, whether the disclosure entity views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.
- d. ***Complexity of the relationship*** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
- e. ***Extent to which the information interests, or may be expected to interest, a wide audience*** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure entity or its relationship with the federal government.
- f. ***Extent to which there are no alternative sources of reliable information*** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.

Disclosure Requirements

- 69. In addition to the factors presented in par. 68 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure entity should be presented separately due to its significance or aggregated with the information regarding other disclosure entities. If information is aggregated, aggregation may be based on disclosure entity type, class, investment type, or a particular event deemed significant to the reporting entity.
- 70. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure entity and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure entity. For example, a reference may be made to a note regarding investments in the disclosure entity.
- 71. For each significant disclosure entity and aggregation of disclosure entities, information should be disclosed to meet the following objectives:³⁷
 - a. ***Relationship and Organization***: The nature of the federal government’s relationship with the disclosure entity or entities

³⁷ The objectives are not listed in any order of preference.

- b. **Relevant Activity:** Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. **Future exposures:** A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure entity

72. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure entity's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.³⁸ In determining what information is needed to meet the objectives in paragraph 71, the factors in paragraph 68, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.

- a. The name and description of the disclosure entity,³⁹ including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
- b. The nature of the relationship between the federal government and the disclosure entity including relevant information regarding:
 - i. How any control or influence over the disclosure entity is exercised
 - ii. Key terms of contractual agreements, statutes, or other legal authorities
 - iii. The percentage of ownership interest and/or voting rights
- c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure entity and/or a statement that the intervention is not expected to be permanent
- d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
- e. A discussion of the disclosure entity's key financial indicators and changes in key financial indicators

³⁸ No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 71 should be provided.

³⁹ For simplicity, information is described in relation to a single disclosure entity. Nonetheless, the information may be presented for an aggregation of similar disclosure entities.

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- f. Information regarding the availability of the disclosure entity's annual financial report and how it can be obtained
- g. In the event that contractual agreements, statutes, or other legal authorities obligate the consolidation entity to provide financial support to the disclosure entity in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
- h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the entity during the period
- i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure entity, including how the maximum exposure to gain or loss is determined. (If this cannot be quantified, a narrative discussion could be offered.)
- j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable.

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73. Any disclosure entity financial information presented in the GPFFR should be based on accrual basis standards provided in generally accepted accounting principles or an other comprehensive basis of accounting developed for its specific type of entity.⁴⁰ This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

74. When information is derived from the disclosure entity's financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure entity's reporting period differs from the government-wide reporting entity's and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure entity's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.

75. Significant changes in information occurring from the end of the disclosure entity's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

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⁴⁰ Consolidation entities should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

RELATED PARTY

76. In addition to entities for which **the** Congress and the President are accountable,⁴¹ the federal government may have relationships with other parties. Only relationships of such significance that **it** would be misleading to exclude information **about such relationships** warrant disclosure.⁴² Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.
77. **Related parties:** Organizations are considered to be related parties if the existing relationship⁴³ or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
78. Significant influence (for the purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
79. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
80. Although significant influence exists among the component reporting entities of the federal government, component reporting entities are subject to the overall control and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
81. Related parties *generally* would include (see paragraph 82 for organizations *generally* not included) but are not limited to:
- a. **Government sponsored enterprises** not meeting the Inclusion Principles
 - b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, multi-lateral development banks)
82. In the context of this Statement, the following generally would not be considered related parties:

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⁴¹ Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation or disclosure entity and not be subject to related party reporting.

⁴² Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

⁴³ Relationship as used in this context refers to material transactions or events involving both parties.

- a. Entities meeting the Inclusion Principles
- b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations⁴⁴
- c. Key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families
- d. Foreign governments
- e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
- f. Special interest groups⁴⁵

Comment [WP22]: Member comment to avoid referring to groups by official name.

83. Although paragraph 82 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 84.
84. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:
- a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
 - b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
 - c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.
85. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:
- a. Nature of the federal government's relationship with the entity, including the name of the entity or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.

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⁴⁴ However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

⁴⁵ Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.

- b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

EFFECT ON EXISTING CONCEPTS, PROPOSED AMENDMENTS TO SFFAC 2, ENTITY AND DISPLAY

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

87. Conforming changes have been proposed to SFFAC 2. Conforming changes were not needed in paragraphs 11- 37 and these paragraphs were retained in SFFAC 2 as they provide concepts regarding reporting entity. Conforming changes were not considered regarding paragraphs 54 – 77 and paragraphs 79 – 112 because they address concepts outside the scope of this Statement.

88. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.

The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

89. Paragraphs 3 - 5 are rescinded because the preamble applicable to all concepts statements, which was adopted at the time SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, was issued, addresses the topics covered.

90. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFFR:

6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established in SFFAC 1, it is clear accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

91. Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.

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92. Paragraph 10, first bulleted item is amended by replacing it with the following bulleted item addressing an understanding of what the reporting entity entails:

- ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

93. Paragraph 38 is amended to exclude references to other paragraphs amended by this Statement. Paragraph 38 is replaced with the following:

The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

94. Paragraphs 39 -50 are rescinded because the standards herein provide guidance on the same matters. It is not necessary or appropriate to retain the guidance in ~~SFFAC 2~~.

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95. The sub heading before paragraph 51 - "Other Aspects Concerning Completeness of the Entity" - is revised to read "Other Aspects Concerning Completeness of the Component Reporting Entity."

96. Paragraph 51 is replaced with the following:

Identifying the organizations to include in the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within parameters more appropriately established in accounting standards, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

97. Paragraphs 52 – 53 are rescinded because these paragraphs relate to issues covered in standards and are not necessary for understanding the notion of the reporting entity.

98. A new sub-heading "Need to Distinguish between Consolidation and Disclosure Entities" is inserted at paragraph 53A.

99. Insert Paragraphs 53A – 53 E under the sub-heading: "Need to Distinguish between Consolidation and Disclosure Entities" - The proposed language provides a high level explanation of consolidation and disclosure entities. These are new terms introduced in the proposed Statement and critical to understanding the reporting entity concept in the

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federal government. More importantly, the proposed language describes the need to distinguish them and the reason for this distinction in terms of financial statement presentation.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct entities are referred to collectively as "disclosure entities."

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53B. Disclosure entities may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure entities' relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation and disclosure entities should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure entities. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure entities are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure entities often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all entities likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure entities.

53D. Maintaining a distinction between consolidation entities and disclosure entities may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure entities. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure entities.

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53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of entities comprising a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

100. Paragraph 78 is rescinded because it is not conceptual guidance. It identifies an expectation that material differences between the recognition and measurement requirements under the Financial Accounting Standards Board and the FASAB standards will be adjusted before consolidation.

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EFFECTIVE DATE

101. This Statement is effective for periods beginning after September 30, 2015. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Introduction

- A1. The federal government and its relationships with other organizations have become increasingly complex. These complex relationships make it difficult to identify federal entities for financial accountability purposes. In addition, some organizations may be viewed as “non-federal” and yet be owned or controlled by the federal government. Identifying the organizations to be included in the government-wide and component reporting entity general purpose federal financial reports (GPFFRs) is necessary to ensure the completeness of the GPFFR.
- A2. The GPFFR should include the varied organizations for which the Congress and/or the President are accountable regardless of their form. Therefore, the primary reason for developing standards for the government-wide and component reporting entity GPFFRs is to ensure that users will be provided with complete financial information about the federal government. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included in the entity, questions have continued in this area that resulted in the need for standards.

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Project History /Task Force

- A3. In 2008, the Board formed a task force to support the project. The objective of the task force was “to assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included.”
- A4. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were presented to the Board for its consideration during the development of these proposed standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. (See Appendix E for a list of task force members.)

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Organizational Approach to Defining Boundaries

Underlying Concepts

- A5. The federal government is complex and therefore defining the boundary of GPFFRs may be difficult. Its constitutionally established powers and often its motivations and functions are different from other organizations. Despite these complexities, difficulties, and differences, accountability is a fundamental goal of financial reporting. As noted in SFFAC 1:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and

must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.⁴⁶

A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraph 71 and 72 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability."

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A7. SFFAC 1 explains that the federal government has a special responsibility to report on its actions and the results of those actions. SFFAC 1 discusses the information needs of both internal and external users including the citizens, their elected representatives, federal executives, and program managers because meeting user information needs is an essential part of accountability in government.

A8. An organizationally based approach to defining boundaries supports accountability to all users but particularly to external users who may be unaware of the nature of organizational relationships. Focusing on organizations helps to identify who is accountable and for what. In addition, an organizational approach provides meaningful financial statements by aligning boundaries with defined organizations for which there would likely be users of GPFFRs.⁴⁷

Identifying and Classifying Organizations

A9. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable. This Statement provides that reporting entities should first identify what organizations, and Funds, are to be included⁴⁸ in the reports. The three principles for including organizations in the government-wide GPFFR are: In the Budget, Majority Ownership Interest, and Control with Risk of Loss or Expectation of Benefit. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it.

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A10. Next, for those organizations to be included, a distinction is made between consolidation entities and disclosure entities. This distinction determines how financial information is to be presented in the GPFFR. Consolidation entity financial information is to be presented in consolidated financial statements and related notes. Disclosure entity financial information is to be disclosed in notes to the financial statements.

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A11. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which organizations should be included⁴⁹ in the government-wide GPFFR because of the wide and varying relationships of the federal government. General purpose federal financial reports for the government-wide reporting entity should be broad enough to report the Congress

⁴⁶ SFFAC 1, paragraph 8.

⁴⁷ See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

⁴⁸ "Included" means an organization's information is either consolidated or disclosed.

⁴⁹ Note that this Statement does not specify which organizations must prepare and issue financial statements.

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and the President's accountability for organizations. This ensures that the financial reports contain all the information essential for fair presentation of the government's financial position and results of operations.

Moved up [2]: The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable.

Principles for Inclusion in the Government-wide GPFFR

In the Budget

A12. Identification of an organization in the President's Budget is the clearest evidence that an entity should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the Budget of the United States Government: Analytical Perspectives – Supplemental Materials schedule entitled "Federal Programs by Agency and Account."

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A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.⁵⁰

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A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled "Federal Programs by Agency and Account" may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

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Organizations Receiving Federal Financial Assistance

A16. The schedule entitled "Federal Programs by Agency and Account" also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the "Federal Programs by Agency and Account" schedule sometimes names an organization to receive a "subsidy" and states "This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation." Thus, "subsidy" is the term used in SFFAC 2 to distinguish such "non-federal" organizations from the organizations intended to be included in the GPFFR.

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A17. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to define "subsidy" but concluded it was more appropriate to rely on the existing definition of "federal financial assistance."

⁵⁰ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

A18. The proposed language ensures organizations that receive assistance as defined by the Single Audit Act Amendments of 1996⁵¹ but listed under an appropriation in the [schedule entitled "Federal Programs by Agency and Account"](#) aren't automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believes a means to confirm whether specifically identified recipient organizations are "non-federal organizations receiving federal financial assistance" is needed. When such organizations are listed in the budget, they should be assessed against the "majority ownership interest" and "control with risk of loss or expectation of benefit" principles before being excluded from the government-wide GPFFR.

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A19. Generally, the Board believes preparers can identify organizations that are in fact receiving "subsidies" as described by SFFAC 2. The Statement provides that although these may be listed in the budget they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the "Federal Programs by Agency and Account" schedule or refer to other budget documents because such treatments may change.

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Organizations Partially in the Budget

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A20. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President's Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the "in the budget" principle. The Board further decided that such organizations should be presented in the same manner as other consolidation or disclosure entities, as discussed later in the Statement. Therefore, the language in the principle ("in the budget") does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization – in its entirety – is either a consolidation or a disclosure entity. Further, paragraph 38 provides that entities listed in the budget are presumed to be consolidation entities.

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Need for Additional Principles

A21. While the principle "in the budget" is the most efficient means to identify organizations for inclusion, there are additional principles to be considered to identify other organizations that should be included in the government-wide GPFFR. The budget principle represents a starting point in analysis but accountability goals could not be met solely through that principle. Because the budget's purposes differ from financial reporting objectives in many respects (such as the focus on the allocation of budgetary resource flows versus costs of operations), it is possible that organizations or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports. For example, some organizations may be established to operate in a manner similar to businesses and excluded from the budgetary process. Therefore, additional inclusion principles are necessary to ensure completeness in the context of the federal financial reporting objectives.

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⁵¹ "Federal financial assistance" is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

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Majority Ownership Interest

A22. Ownership interests typically provide owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about ~~service efforts, costs, and accomplishments be made available~~. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR. As described in the Statement, majority ownership interest exists with over 50 ~~percent~~ of the voting rights or the net residual assets of an organization.

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A23. The Board noted that some may wonder how to account for minority ownership interests (less than 50 ~~percent~~). The Board agreed ~~addressing minority interests through the project~~ is likely to be less effective than allowing the GAAP hierarchy to fill any void. To address the potential question, the Board included within the Statement a footnote stating ownership interests 50 ~~percent~~ or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

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Control with Risk of Loss or Expectation of Benefit

A24. When the federal government controls an organization with risk of loss or expectation of benefit, the organization should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss ~~or~~ expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

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A25. For example, the Statement provides for situations where the risk of loss or expectation of benefit does not exist—in the instance of the federal government exercising regulatory powers over an organization. In these cases, the federal government is unable to exercise that power for its own benefit and rarely explicitly assumes risk of loss. Therefore, including such an organization in the GPFFR would misrepresent the financial position and results of operation of the government. This would not support achievement of the objectives of financial reporting.

A26. For financial reporting purposes, assessment of control is made at the reporting date and based on current legislation, rather than legislation that may or may not be enacted in the future.

A27. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization.

A28. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be

non-financial. For example, it may be in the form of a service provided on the federal government's behalf or the ability to direct the work of the other entity to deliver goods and services.

Misleading to Exclude

A29. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

A30. The Board also believes the provision is consistent with the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. It provides for those unique situations where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.

Reporting on Organizations—Consolidation or Disclosure

A31. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure entity.

A32. Different means of presenting relevant information are provided for consolidation and disclosure entities.⁵² The distinction between consolidation entities and disclosure entities is based on the degree to which the following characteristics are met: the entity is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure entities that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual entity is more useful than consolidation of the individual entity's financial statements in the government-wide financial statements. In other instances, consolidation of individual entities' financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A33. While principle-based standards do not explicitly classify specific entities as consolidation or disclosure entities, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation or disclosure entity might be applied to certain significant individual entities or classes of entities. For many classes of

⁵² Consolidated financial statements provided for "consolidation entities" will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

entities, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant entities with particularly unique characteristics, such as the Federal Reserve System, a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

Comment [WP26]: Edit per MR

Deleted: With respect to significant individual entities, a majority of the Board did not believe illustrations would be appropriate because there where there is only one entity to be illustrated, such as the central bank; an illustration might become de facto a requirement regarding the significant individual entity's classification.

A34. The role of preparers and auditors is to assess each entity against the principles in paragraphs 19 – 52 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should develop standards, either in this Statement or in a future Statement, that explicitly address reporting on the Federal Reserve System (FRS) in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central bank, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors in making decisions would consider the appropriate matters. The majority of the Board believes the proposed principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation or disclosure entity.

A35. If the assessment of the FRS⁵³ resulted in its classification, as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as well as assets for investments in non-federal entities. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

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A36. If the assessment of the FRS resulted in its classification, as a disclosure entity, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to taxpayers. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results

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⁵³ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

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Consolidation entities

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A37. Consolidation entities generally provide goods and services on a non-market basis. That is, prices are not established solely through market transactions where supply and demand determine price. Goods and services provided on a non-market basis may be free of charge or provided at prices that are either not economically significant or bear little relationship to the cost of the goods or services.

Comment [WP27]: Per TA, this was not quite as neutral as he expected but he did not strongly object. Staff suggests these edits for balance.

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A38. Consolidation entities are financed through taxes, fees and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the taxpayer for consolidation entities. Inclusion in the budget is the clearest evidence an entity is relying on the taxpayer and that elected officials are key decision makers.

A39. The budget is a political document serving many purposes. The 1967 *Report of the President's Commission on Budget Concepts* indicates that "the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth." On the topic of coverage of the budget, the Commission recommended that "the budget should, as a general rule, be comprehensive of the full range of Federal activities." Because the budget includes "federal activities," entities listed in the budget, except those receiving federal financial assistance, are presumed to qualify as consolidation entities.

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A40. The assessment of whether an entity meets the attributes for a consolidation entity is based on the assessment of all the attributes and the degree to which each is met. As such, not all attributes are required to be met; classification is based on the assessment as a whole. For example, the post office may compete against other organizations; therefore it may be viewed as providing goods and services on a market basis. However, if it primarily meets the remaining characteristics then it is a consolidation entity.

Disclosure entities

A41. Disclosure entities receive limited or no taxpayer support. Disclosure entities, in contrast to consolidation entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. Disclosure entities have relative financial independence and often provide goods and services on a market basis. This is an effort to shield the federal government and the taxpayer from risk.

A42. In addition, another contrast with consolidation entities is that with disclosure entities, the Congress and/or the President have much less direct involvement in decision-making. Decision-making may rest with a governing board insulated from political influence and there may be situations where disclosure entities may have a separate legal identity.

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A43. It is important to recognize the continuum that exists among disclosure entities. For example, despite a greater degree of autonomy, some disclosure entities may still exercise powers that are reserved to the federal government as sovereign. Other disclosure entities may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory or intervention actions.

A44. The Statement provides categories of disclosure entities primarily as a way to help identify disclosure entities. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about disclosure entities. The categories of disclosure entities include quasi-governmental and/or financially independent entities, receiverships and conservatorships, and federal government intervention actions.

Quasi-Governmental and/or Financially Independent Entities

A45. The Statement describes quasi-governmental and/or financially independent entities as those disclosure entities where governance and/or financial differences lead to greater independence. The Statement provides both governance and financial characteristics that would be found in this type of disclosure entity.

A46. Quasi-governmental and/or financially independent entities may include certain FFRDCs, museums, performing arts organizations and universities, and venture capital funds. Because details may differ among organizations in each example type, an objective assessment may classify some individual organizations as consolidation entities rather than disclosure entities. [Appendix C- Illustrations](#) offers examples that may be useful in application.

Receiverships and Conservatorships

A47. The Statement describes receiverships and conservatorships as disclosure entities. This includes those failed financial institutions and banks the federal government takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned entities would be disclosure entities.

Federal Government Intervention Actions

A48. The Statement describes federal government intervention actions as disclosure entity involvements resulting from exceptional circumstances where the involvements are not expected to be permanent. SFFAC 1 acknowledges the unique nature of federal government activity and its broad responsibilities. Paragraph 50 explains “The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power. The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society...” SFFAC 1 describes the federal government’s responsibility for the general welfare of the nation in paragraph 53-54 as “a broad responsibility that involves multiple goals.”

A49. With these broad responsibilities, the federal government may decide to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets, key industries, states, cities, counties, or military occupation of

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A54. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation and disclosure entities for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A55. The Board believes that component reporting entities should identify consolidation and disclosure entities administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (appointed officials) are expected to be accountable.

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A56. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFR would be complete.

A57. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

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A58. Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

Comment [WP30]: Per HS – these are not “areas.” Edit consistent with proposed standards text.

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A59. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts.

GPFFR Consolidation and Disclosure

A60. As noted above, decisions about the government-wide GPFFR require determining what organizations are to be included in the reports and identifying appropriate means to present relevant information about organizations. The final determination of the presentation of financial information through consolidation or disclosure is based upon the results of two

assessments—first if the organization is included and second, if those included organizations are classified as consolidation or disclosure entities.

A61. The Flowchart at Appendix B is a useful tool in applying the principles established. It is helpful in the assessment and applying the standards in order. It includes paragraph references to [underlying principles](#) and major decision points.

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Consolidation entities

A62. The Statement provides that consolidation entities should apply SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. In addition, it provides for the consolidation of the financial statements of consolidation entities so taxpayers and citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the taxpayer supported activities, resources, and obligations where [governance](#) rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

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A63. Existing guidance [may also](#) require [additional](#) information—either through disclosures or required supplementary information—regarding consolidation entities. While the term “disclosure entities” is used to refer to entities included in GPFFRs through disclosures, readers should not infer that disclosures would not also be provided regarding consolidation entities and related activities and transactions consistent with existing standards.

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[Consolidation of FASB-based and FASAB-based Information](#)

A64. The Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

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A65. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards

recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.⁵⁸ (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

A66. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there are significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger entities may not be justifiable since conversion may not aid users.

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A67. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger entities; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement proposes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A68. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

Disclosure entities

A69. The Board believes consolidation of disclosure entities would not result in information meeting the basic qualitative characteristics of information in financial reports because it would not provide the most relevant, understandable, or consistent information. The Board believes consolidation of disclosure entities may obscure the boundaries of the risks and rewards intended to be assumed or gained. Further, assets that are not available for purposes other than the specific business operation of the non-consolidated entity might be commingled with federal assets, and liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for entities having the characteristics of disclosure entities should be kept separate from balances and amounts for those entities having the characteristics of consolidation entities to prevent unintended distortions to the consolidated financial statements.

A70. The Board believes SFFAC 1 recognizes the challenges that may arise in applying traditional approaches to financial reporting. SFFAC 1 par. 49 states “...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government.” SFFAC 1 par. 105 further explains “reports must accurately reflect the distinctive nature of the federal government and must provide

⁵⁸ In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.

information useful to the people, their elected representatives, and federal executives...” SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.⁵⁹

A71. The Statement provides flexibility in identifying needed information regarding disclosure entities because the range of disclosure entities is broad and different information may need to be disclosed to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the consolidation entity’s financial statements.

Factors in Determining Disclosures

A72. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors or guidance to assist in determining what disclosures to include. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosure entity presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of information regarding a disclosure entity to be provided.

A73. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. The assessment of the appropriate disclosures should be made after considering all the factors.

Disclosure Requirements

A74. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives. Care should be taken to ensure the objectives are met, without producing unintended consequences. Preparers should keep in mind there are associated costs and potential audit implications with any information included in [a](#) GPFFR. Incorporating by reference or including summary financial statements or summary financial information generally would result in an auditor being required to gain audit assurance on that information and thereby may result in additional audit costs.

A75. The Board believes any financial information about disclosure entities in the government-wide GPFFR should be based on accrual basis standards specific to the type of entity while minimizing additional costs on the disclosure entity. Therefore, there will be instances where information about disclosure entities is based on reporting periods that differ from the GPFFR reporting period. The Board agreed that if disclosure entities have a different reporting period than the government-wide GPFFR, disclosure of information from a reporting period ending within the government-wide reporting entity’s reporting period is acceptable. The Board performed outreach on this issue to the audit community and to the federal entity task force. Generally, the feedback supported this approach.

A76. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the information as a result of events occurring after the issuance of the disclosure entity’s audited financial statements and before the issuance of

⁵⁹ SFFAC 1, par. 156.

the reporting entity's audited financial statements for a later fiscal year end. The Board notes this would only be necessary if a disclosure entity's summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

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A77. The Board is especially concerned with the interpretation by the users and preparers regarding the requirements for disclosure entities and ultimately how they would affect the display and disclosures. The Board believed this would be an important consideration during deliberations and invited the assistance of the Department of the Treasury and a potential included organization in preparing a draft Illustration of a disclosure based on the draft requirements.

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A78. Although the Board believed some enhancement of the draft standards was in order to encourage concise and transparent disclosures, the Board agreed the inclusion principles were appropriate. Further, the flexibility provided within the disclosure requirements, along with the factors to consider, were preferable to prescribing information required regarding specific entities. The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other enhancements to the draft disclosures. This need arose because of the complexity of the relationships being described, transactions affecting multiple assets and liabilities being reported, and the desirability of an integrated set of disclosures. The Board subsequently modified the draft disclosure requirements to emphasize integration of disclosures.

Related Party

A79. The Board determined it should define "related party" and address it within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

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A80. Because of the extent of the federal government's relationships – whether already established or implied – "related party" concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The related party category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

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A81. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other domains. The Board discussed whether jointly controlled component reporting entities should disclose information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting

entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, they preferred that OMB explore options for additional guidance through Circular A-136, *Financial Reporting Requirements*, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

Proposed Amendments to SFFAC 2, Entity and Display

A82. The Statement proposes amendments to SFFAC 2, Entity and Display. The Statement provides a description of the change to SFFAC 2 and an explanation as to why the change is being made. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.

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A83. Paragraphs 54—77 and 79 – 112 address concepts outside the scope of this Statement and are not amended.

A84. In addition, no changes are proposed to paragraphs 11-37 of SFFAC 2, because the Board believes these paragraphs provide the conceptual underpinning for understanding the structure of the federal government and how this relates to reporting entities for general purpose federal financial reporting. Although there may be some small differences in terminology in those paragraphs, the Board did not believe they were significant enough to warrant amendments.

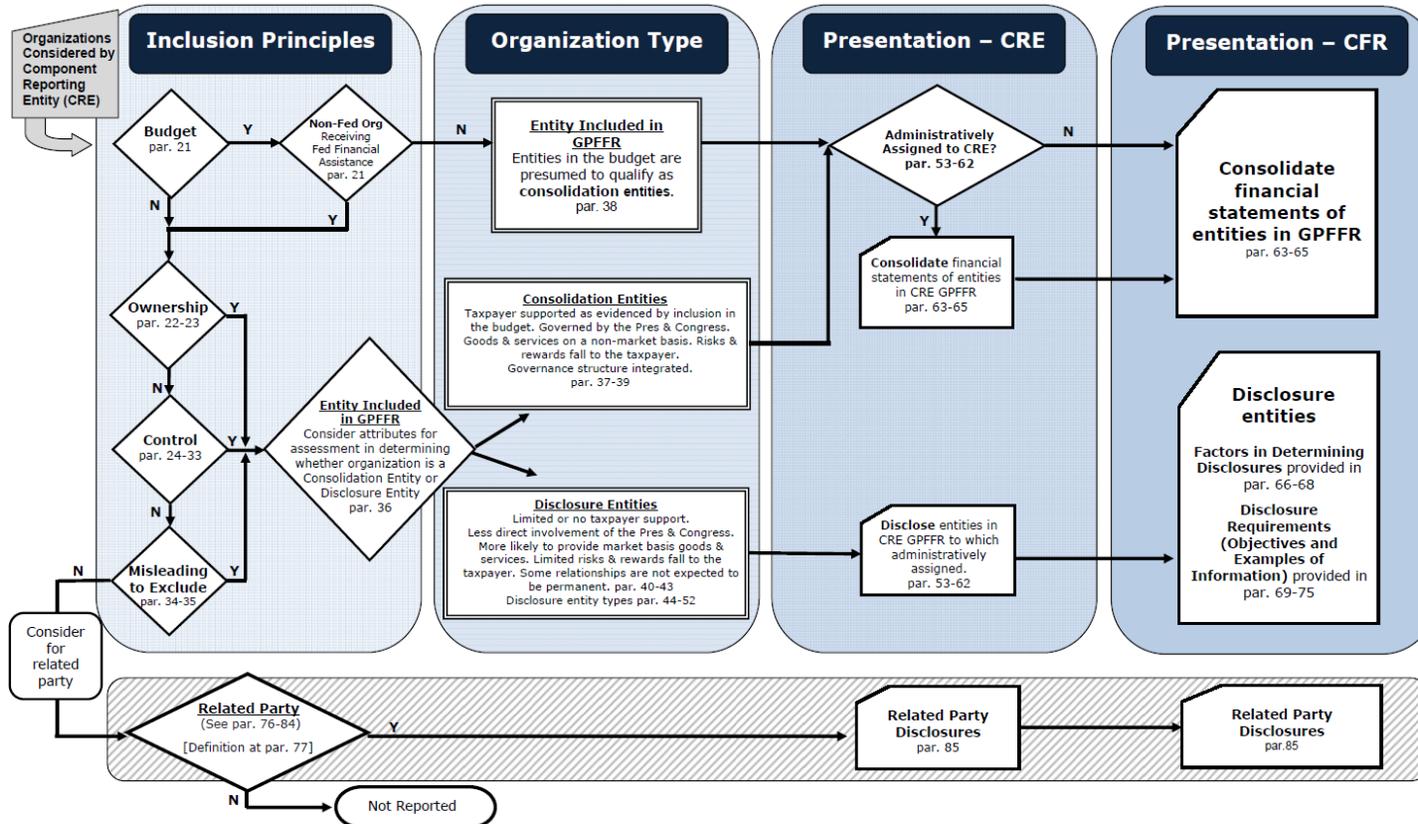
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A85. Paragraphs 47-50 of SFFAC 2 identify certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The new principles can be applied to the entities previously excluded and conclusions reached to include the entities—either as consolidation or disclosure entities—or to continue to exclude the entities. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

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APPENDIX B: FLOWCHART

FLOW CHART (Appendix B)



APPENDIX C: ILLUSTRATIONS

Preamble

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

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

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

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

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

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ABC Department

(In the Budget—Consolidation Entity)

Assumed Facts and Circumstances

Congress established ABC Department (ABC), a federal organization, to promote entrepreneurship and innovation as a means to address national economic and environmental challenges. Provisions that govern ABC are generally prescribed in legislation and ABC accomplishes its mission through the activities of various bureaus, grants to research institutions, and contracts with universities and not-for-profit organizations.

The executive leadership of ABC consists of a secretary, deputy secretary, and three assistant secretaries. The President nominates and the Senate confirms each of these officials. These officials serve at the pleasure of the President. ABC is subject to all laws and regulations applicable to executive branch agencies.

ABC relies on appropriated public funds to conduct its mission and is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled *“Federal Programs by Agency and Account.”* The President and the Congress consider ABC’s requests for resources and determine the amount that should be budgeted to provide services. Furthermore, ABC is not considered to be a non-federal organization receiving federal financial assistance.

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Tentative Conclusions

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

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

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

Epsilon Corporation

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon's activities. Epsilon is governed by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. The Congress monitors Epsilon's activities by conducting hearings on Epsilon's programs and requesting Government Accountability Office (GAO) and Office of Inspector General (OIG) audits.

Epsilon is listed in the [in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account.” Epsilon](#) receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the entity may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

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

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

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

Tentative Conclusions

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

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

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

Sigma Association

(Control based on Persuasive Indicator - Disclosure Entity (financially independent))

Assumed Facts and Circumstances

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

Sigma is governed by a ten-member board of directors. Five members are appointed by the President and confirmed by the Senate. Four members are elected by industry members. The Secretary of Agriculture (or his/her designee) serves as a voting ex-officio member of the board. No more than three of the appointed members may be from the same political party. Board members serve seven-year terms and can only be removed for cause (meaning they may not be removed for policy decisions). Also, Congress monitors Sigma’s activities by conducting hearings on Sigma’s programs and requesting GAO audits.

Sigma is financed by fees imposed on industry members. Sigma’s board of directors must establish an annual budget and legislation limits how Sigma can invest proceeds from fees and, to help ensure that Sigma remains financially viable, legislation requires Sigma to have a reserve fund. The board of directors determines the level of the reserve fund after considering input from industry members. If Sigma encounters a shortfall, it may borrow a limited amount from the U.S. Department of the Treasury (Treasury), but any additional funding requirements must be obtained from future fee assessments on industry members.

Tentative Conclusions

Based on the assumed facts and circumstances, and other considerations, management determined and the auditor concurred that Sigma should be included in the government-wide GPPFR because Sigma meets the third inclusion principle (control with expected benefits or risk of loss). Indicators that the federal government can control Sigma are that the Congress and the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

Classification as a Consolidation or Disclosure Entity

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

Evidence suggesting that it is a disclosure entity includes:

1. Taxpayer support is not provided for ongoing operations.

2. The corporation is relatively financially independent because it is primarily funded from a source other than appropriations. Its budget and fees are not subject to Congressional or Presidential approval.
3. Having seven-year terms for directors who are not subject to removal for policy decisions indicate a higher degree of autonomy than executive branch appointees. This governance structure vests greater decision-making authority with the board while insulating it from political influence. As a result, Congressional and Presidential oversight is less direct since they are not involved in decisions such as the level of reserves needed.
4. While Sigma is permitted to borrow from the Treasury, such borrowing is limited. This means risks to the taxpayer are limited. Instead, Sigma is expected to maintain its operations and meet its liabilities with revenues received from sources outside of the federal government.

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Evidence suggesting that Sigma may be a consolidation entity includes:

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

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Administrative Assignment

Because each disclosure entity must be reported by at least one consolidation entity, management considered whether Sigma has been administratively assigned to the Department of Agriculture. Evidence suggesting administrative assignment to the Department of Agriculture includes that the secretary serves as an ex-officio member of the board.

As a result, management determined and the auditor concurred that the Department of Agriculture should disclose information regarding Sigma in its GPFFR. If Sigma is also administratively assigned to other component reporting entities, then those entities should also consider the need to disclose information in their GPFFRs.

Scholars University

(Not Included)

Assumed Facts and Circumstances

The Congress and the President chartered Scholars University as a small, private, independent, not-for-profit educational institution and legislation describes the mission of the university. The legislation also indicates that the university is not an instrumentality of the federal government and that the federal government does not assume any liabilities of the university.

Scholars University is governed by a 29-member board of trustees. The Secretary of Education is an ex-officio member of the board and the remaining members are elected by the board for three-year terms. The board controls and directs the university's affairs such as determining the university's tuition and fee structure, adding or removing colleges within the university, and establishing new research institutions.

To support its mission, Scholars University receives most of its revenue from student tuitions and fees, and private contributions. The university receives appropriations to support some of its academic programs. The university is listed in the [in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account"](#) under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

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Tentative Conclusions

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

The initial analysis is summarized below:

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

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aggregate may reveal that Scholars is controlled. Such an analysis may be needed in practice.]

- Misleading to exclude – Scholars University is a small not-for-profit that is listed in the Budget solely as a program within the Department of Education. Management determined and the auditors concurred that it is both quantitatively and qualitatively immaterial. Also, there were no other facts and circumstances that would suggest that Scholars University should be included in the GPFFR. As a result, it would not be misleading to exclude.

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR.

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Education Research Institute (ERI)

(Control based on Persuasive Indicator – Consolidation Entity)

Assumed Facts and Circumstances

The purpose of the [Education Research Institute \(ERI\)](#) is to assist state and local officials in making informed decisions regarding effective education methods. ERI was established by the Congress and the President through a public law specifying the organization's:

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

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

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

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the U.S. Treasury to the ERI trust fund. An annual transfer to ERI is not listed in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials](#) schedule entitled "[Federal Programs by Agency and Account](#)", but is included in the Department of Education's Congressional Budget Justification. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI may fund up to 25% of its annual budget through donations but may not use federal funds to solicit donations.

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

ERI must provide annually an audited financial report to the Department of Education and relevant Congressional committees.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that ERI should be included in the government-wide

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GPFFR because the third inclusion principle (control) is met. A persuasive indicator of control exists because the federal government can unilaterally dissolve the organization and have access to its assets and responsibility for its liabilities.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, ERI should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that ERI is a consolidation entity.

Evidence suggesting that ERI is a consolidation entity includes:

1. It is primarily financed by taxpayers.
2. Taxpayers have assumed the risks associated with ERI's liabilities.
3. The purpose of ERI is to assist state and local officials by providing consultation services on a non-market basis.
4. ERI's annual budget is approved by the Department of Education and the Department also provides information related to ERI activities in its annual performance report and Congressional Budget Justification. These activities show that elected officials, acting with and through politically appointed officials, make decisions regarding ERI's budget.

Evidence suggesting that ERI is a disclosure entity includes:

1. A majority of the members of the board of directors is appointed by non-federal officials.
2. ERI is able to access donations to sustain some of its operations.

Administrative Assignment

The Department of Education should consider whether or not ERI is administratively assigned to it. Evidence that indicates ERI is administratively assigned includes Education's participation in ERI's budgetary process and inclusion of information regarding ERI in its own Congressional Budget Justification. Having considered the above information and other available evidence, the Department of Education determined and its auditor concurred that it should consolidate ERI's financial statements in its GPFFR.

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Mediation Corporation

(Control based on Indicators in the Aggregate –Disclosure Entity)

Assumed Facts and Circumstances

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

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

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

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill the board member positions. A panel of local government officials participating in the network selects new members of the governing board from among the nominees. No more than seven members may be affiliated with the same political party. The members elect their chairperson from among the members. The President appoints the executive secretary and the Senate confirms the appointment. The executive secretary's term is fifteen years during which the President may only remove the appointee for cause.

Mediation is financed by an annual appropriation, interest earnings, and grants from any public or private grant-making organization. Grants must not finance more than 20 percent of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U.S. Government.

An annual appropriation is provided in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account"](#) for "Grants to the Mediation Corporation." The appropriation is made to the Department of Justice which transfers budget authority to Mediation. Mediation manages its cash balances similar to other not-for-profits and may retain any interest earned on unspent funds. In addition, it may apply for and receive grants from any grant making organization—public or private—subject to the 20 percent limitation.

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

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Tentative Conclusions

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide GPFFR, management considered the remaining inclusion principles—ownership and control. It is unclear, based on the assumed facts and circumstances, whether Mediation is owned by the federal government. Therefore, management must consider the control indicators to determine if the third inclusion principle is met. None of the persuasive indicators of control are present based on the assumed facts and circumstances so considerable professional judgment is required to determine whether – in the aggregate – the indicators provide evidence of control. The indicators suggesting federal government control over Mediation include:

1. The federal government provides significant input regarding selection of the entity's governing board members since a selection can only be made from among candidates identified by the President.
2. The President appoints a key executive – the executive secretary – and may remove him or her for cause.
3. Federal law restricts Mediation's capacity to generate revenues since only appropriations, interest earned, and grants may be used. In addition, only 20 percent of its annual needs may be met through grants.
4. The U.S. Attorney General approves the annual budget.
5. Federal law requires annual audited financial reports.
6. Federal law directs Mediation to work through a network of government agencies to provide services.

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Based on the assumed facts and circumstances and other considerations, and using professional judgment, management determined and the auditor concurred that Mediation should be included in the government-wide GPFFR.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Mediation should be reported as a disclosure entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Mediation is a disclosure entity.

Evidence suggesting that Mediation is a consolidation entity includes:

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

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Evidence suggesting that Mediation is a disclosure entity includes:

1. Members of its governing body are selected by non-federal officials, serve longer terms than political appointees, must include members from different political parties, and may only be removed for cause. These conditions insulate the governing body from political influence.
2. Mediation has some access to non-federal funding through grants and its network of service providers is free to access non-federal funding for service delivery (subject to the 20 percent limitation).
3. Taxpayers have not assumed risks related to Mediation's liabilities.

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Administrative Assignments

The Department of Justice should consider whether or not Mediation is administratively assigned to it. Evidence that indicates it is administratively assigned includes the Department of Justice's participation in Mediation's budgetary process. After considering the above and other factors, and using professional judgment, management at the Department of Justice determined and the auditor concurred that disclosures regarding Mediation should be presented in its GPFFR.

Bicycle America, Inc. (Scenario A)

(Not Included)

Assumed Facts and Circumstances

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

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

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

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but was part of a larger federal program within the Department of Transportation.

The funding legislation also established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions. In addition, the advisory committee will develop a plan to aid BA in returning to financial solvency and refinancing the short-term loan.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should not be included in the government-wide GPFRR. Specifically, BA is not listed in the Budget. Further, based on the available information and other considerations, management determined and the auditor concurred BA does not meet either the remaining ownership or control inclusion principle because BA continues to be owned by common shareholders and governed by the existing board of directors. The advisory committee offers advice to the Congress and does not have authority to direct BA to act.

Management determined and auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude BA.

Bicycle America, Inc. (Scenario B)

(Ownership – Disclosure Entity (Intervention))

Assumed Facts and Circumstances

Same as above except that in addition to the actions in Scenario A above, the federal government received shares that carry 51 percent of the voting rights of BA common stock and the advisory committee will develop a plan to sell the shares.

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Tentative Conclusions

Based on the changed assumptions and no information to the contrary, and using professional judgment, management determined and the auditor concurred that BA should be included in the government-wide GPFFR. When the federal government holds a majority ownership interest, albeit temporary, the owned entity should be included in the government-wide GPFFR.

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

Department of Transportation was assigned responsibility for transferring funds to BA which indicates an administrative assignment. As a result, management determined and their auditor concurred that the department should disclose information regarding BA in its GPFFR. If BA is also administratively assigned to other component reporting entities, then those entities should also disclose information in their GPFFRs.

Chatham Laboratory

(Control based on Persuasive Indicator – Consolidation Entity (FFRDC))

Assumed Facts and Circumstances

Federal Department of ABC (ABC) organized Chatham Laboratory as a federally funded research and development center (FFRDC) to conduct specialized engineering research that supports ABC's mission related to infrastructure and leads to improved services. As specified in the agreement, ABC provides the physical capital and ongoing funding for the FFRDC and sets research goals for Chatham.

ABC selects a contractor to operate Chatham and conduct research consistent with the established goals. ABC is not involved in the day-to-day operations of Chatham. ABC routinely evaluates Chatham's performance and maintains a research office to review strategic plans, consider progress, and serve as a liaison to other federal institutions. ABC reports on Chatham's efforts in its own performance reports.

Chatham operations are funded entirely through appropriations provided to ABC. ABC identifies Chatham in its Congressional Budget Justification but Chatham is not specifically identified in [the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account"](#). Instead, amounts for Chatham are included in a larger research program which makes payments to the contractor consistent with the terms of the contract. Chatham's contract operator must submit financial and performance reports to ABC periodically. All Chatham assets belong to the federal government and the results of Chatham research are the property of the federal government. In addition, ABC would be responsible for liabilities arising from use of the facilities to conduct research such as environmental cleanup liabilities. ABC is also responsible for employee benefits in the event Chatham operations are terminated.

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Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Chatham should be included in the government-wide GPFFR. While contracting for the operation of Chatham, officials at ABC also act as the governing body by establishing the purpose and mission of Chatham. Further, ABC continues in this role through its involvement in Chatham's strategic planning and monitoring of performance. Establishing the purpose and mission of an organization is a persuasive indicator that control exists.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Chatham should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Chatham is a consolidation entity.

Evidence suggesting that Chatham is a consolidation entity includes:

1. It is primarily financed by taxpayers.

2. Taxpayers have assumed the risks associated with Chatham's liabilities.
3. Chatham's annual budget is developed by ABC officials and information related to Chatham activities is provided in ABC's performance report and Congressional Budget Justification. This indicates that decision-making regarding the budget is exercised by elected officials through politically appointed officials and the budget process.

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Evidence suggesting that Chatham is a disclosure entity includes:

1. Day-to-day operating decisions are made by a contractor.

After considering the above analysis and other factors, management determined and the auditor concurred that Chatham is a consolidation entity.

Administrative Assignment

ABC should consider whether or not Chatham is administratively assigned to it. In the example, evidence suggesting Chatham is administratively assigned includes ABC's role in Chatham's strategic planning, budgeting, and administration. Having considered the assumed facts and circumstances and other available evidence, the Department of ABC determined and its auditor concurred that it should consolidate Chatham's financial statements in its GPFFR.

Gotham Laboratory

(Not included – Economic Dependency Insufficient to Show Control)

Assumed Facts and Circumstances

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

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

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

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Gotham should not be included in the government-wide GPFRR. Gotham is not listed in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account.”](#) Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either [majority ownership or control with risk of loss or expectation of benefit.](#) Although Gotham appears to be economically dependent on the federal government, it ultimately retains discretion as to whether to accept funding or do business with the federal government. Despite the influence resulting from this dependency, the federal government does not govern Gotham's financial and operating policies. [Further, management determined and auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude Gotham.](#)

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Andromeda Prime Power Systems

(Related party- GSE)

Assumed Facts and Circumstances

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

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

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

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During the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands and APPS issued bonds to finance the initiative. The interest rate required by lenders indicates that the market assumes the federal government has implicitly guaranteed the payment of principal and interest. In its regulatory capacity, the federal government required APPS to establish a capital reserve and created a five-member APPS Advisory Board to monitor and advise Congress on APPS' fiscal operations.

APPS derives its revenues from fees charged to commercial entities and receives no ongoing federal support through the Budget.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be reported in the government-wide GPFRR as a consolidation entity or disclosure entity. APPS is not listed in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account”](#) and the federal government does not have a majority ownership interest in the company.

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Further, management does a thorough assessment of control indicators and determines the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

However, based on the assumptions and other considerations, management determined and the auditor concurred that APPS should be disclosed as a related party. Related parties generally include GSEs not meeting the inclusion principles, especially those organizations [for which the relationship is of such significance that it would be misleading to exclude information about it.](#)

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U.S. Museum (Scenario A)

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The U.S. Museum (the Museum) was organized to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship.

The Museum is an independent establishment of the federal government and is governed by a board of trustees, known as the Museum Council. The Council has 13 voting members and 2 nonvoting members. Of the voting members, 11 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 2 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

The Museum receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90 percent of operations and activities, with the remaining 10 percent coming from donor activities and museum sales. The museum is listed in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account.”](#) All donations are considered to be available for use unless specifically restricted by the donor or by time. Furthermore, the Museum is not considered to be a non-federal organization receiving federal financial assistance.

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Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that the Museum should be included in the government-wide GPFFR because the Museum is listed in the Budget (the first inclusion principle). Further, the President and the Congress appoint the Museum Council which indicates the federal government controls the Museum (the third inclusion principle).

Classification as a Consolidation or Disclosure Entity

Because it is listed in the budget, the Museum is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that the Museum is a consolidation entity. As a consolidation entity, its financial statements should be consolidated in the government-wide GPFFR. The financial statements included should be for the entire entity, and thus include the sources and uses for both the appropriations and the donated funds.

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Administrative Assignment

Based on a review by management, no other component reporting entity has been assigned administrative responsibilities for the Museum. Therefore, the Museum is consolidated only directly into the government-wide GPFFR.

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U.S. Museum (Scenario B)

(Control based on Persuasive Indicator –Disclosure Entity (Financially Independent Entity))

Assumed Facts and Circumstances

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

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

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

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

Tentative Conclusions

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide GPFRR because it is controlled by the federal government. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. An assessment of the remaining inclusion principles shows that the Museum is controlled by the federal government since a majority of the trustees are appointed by the President; a persuasive indicator of control.

Classification as a Consolidation or Disclosure Entity

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

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below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Museum is a disclosure entity.

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

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

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

1. The Museum is a separate legal entity – a not-for-profit – and terms for a majority of Council members are ten-years. This insulates the organization from political influence. Further, day-to-day operations are governed by a board of directors whose members are not directly appointed by elected officials.
2. The Museum is intended to receive limited taxpayer support and market rates are charged for facility rentals.
3. The Museum is required to make explicit that any liability for deferred compensation of its employees is not guaranteed by the federal government. This indicates that limited risks are imposed on the taxpayer.

Disclosure entities should be presented by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

Administrative Assignment

Management determined and the auditor concurred the Department of Federal Museums should present the Museum as a disclosure entity in its GPFFR because the department is assigned administrative responsibility for the Museum based on appointment of its head to serve as chairperson of the Council.

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Firefighters' Housing Limited Partnership

(Owned and Controlled - Consolidation Entity)

Assumed Facts and Circumstances

Agency 123 has been authorized to establish pre-positioned housing and equipment storage facilities on federal land to ensure immediate and efficient deployment of firefighting resources in response to wildfires in remote areas. The enabling legislation allows Agency 123 to enter into a wide range of financial agreements with private-sector participants to provide housing and equipment storage for the firefighters.

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The agency and a private developer formed a limited partnership—Firefighters' Housing Limited Partnership (FHLP)—to develop, operate, maintain, and own all housing and storage units and facilities within a designated area for 25 years. Agency 123 leased land to FHLP under a 25-year ground lease. At the end of the 25-year ground lease, the agency has the option to renew the partnership for another 25 years. If it does not renew, all structures and land revert back to Agency 123, in accordance with the agency's residual ownership interest. During the 25-year ground lease, Agency 123 will provide an annual payment to FHLP from its appropriated funds for management services, use of the housing by Agency 123 employees during the fire season, and equipment storage year-round.

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The private sector partner is guaranteed a minimum payment from FHLP and has no ownership interest in FHLP properties. The private sector partner also is entitled to a share of profits from non-fire season vacation rentals of the housing so long as the facilities meet established condition requirements. Profits not distributed to the private sector partner are retained by FHLP and can be used for capital improvements including development of new housing in adjacent parks under similar terms.

As part of the partnership agreement, Agency 123 has significant authority to determine the policies governing FHLP's activities and to affect day-to-day decisions such as design and construction. Any debt incurred by FHLP must be authorized by the agency. Furthermore, capital and operating budgets require agency approval and financial transactions are monitored on a monthly basis by the agency's contract administration office. The partnership is required to produce audited financial statements annually.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that FHLP should be included in the government-wide GPPFR. A substantial ownership interest is present via the agency's continuing ownership interest. In addition, several control indicators are met as summarized in the following analysis of available information.

1. Agency 123 may be able to direct the partnership regarding the establishment and subsequent revision of financial and operating policies through its review and approval of operating budgets, designs, and condition of the facilities. If so, this would be a persuasive indicator of control. Management should weigh the impact of its role in directing the FHLP's financial and operating policies and consider how much discretion falls to the private sector partner.

2. Other indicators in the aggregate may indicate control. Agency 123 has significant authority to:
 - a. direct the ongoing use of assets.
 - b. approve the budgets and business plans for FHLP.
 - c. require audits.
 - d. limit borrowing and investment by FHLP.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, FHLP should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that FHLP is a consolidation entity.

Evidence suggesting that FHLP is a consolidation entity includes the following:

1. FHLP provides housing to firefighters as its primary function on a non-market basis.
2. It is financed by taxpayer funds supplemented by any retained profits from non-fire season rentals.
3. Decisions are made by organizational leaders at Agency 123 who are appointed by the President and confirmed by the Senate.
4. Funds transferred to FHLP will be approved through the usual budgetary process so that FHLP funding will be included in the budget approved by the Congress and the President.

Evidence suggesting that FHLP is a disclosure entity includes the following:

1. FHLP has a legal identity separate from Agency 123.
2. FHLP is authorized to provide vacation housing services to customers on a market basis and use the proceeds to first compensate the private sector partner and then reduce the cost of firefighter housing borne by the taxpayer.

As a consolidation entity, FHLP's financial statements should be consolidated by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred Agency 123 should consolidate FHLP's financial statements because it is assigned administrative responsibility for FHLP based on its inclusion of FHLP funding in its budget request and its coordination and monitoring of FHLP's plans and performance.

The Blue Mountain Observatory

(Control based on Indicators in the Aggregate – Disclosure Entity (FFRDC))

Assumed Facts and Circumstances

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

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

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

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

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

In the most recent fiscal year, BMO received \$100 million in funding from Agency XYZ through its cooperative agreement with UC. Agency XYZ proposed the \$100 million in funding in its Congressional Budget Justification and described how the funds would be used to support the

research programs at BMO. In administering the funds provided by Agency XYZ for BMO programs, UC may:

1. expend funds to meet ongoing operational needs.
2. make annual cash contributions to employee benefits programs (accrued leave and pension plans).
3. make annual payments due under long-term leases.
4. construct or purchase new assets so long as all resulting property is titled to BMO.

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In the event the cooperative agreement with UC is terminated, Agency XYZ would assume management responsibility for the facility. Further, Agency XYZ would seek appropriations for termination expenses such as post-retirement benefit liabilities for BMO employees. However, Agency XYZ would be obligated to pay termination benefits only if funds were appropriated for that purpose.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BMO should be included in the government-wide GPFFR. BMO is not listed in the [Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account”](#), so other inclusion principles must be considered. BMO facilities are owned by the federal government and new assets are titled to the federal government. With respect to the control inclusion principle, Agency XYZ establishes the fundamental purpose and mission of BMO through its participation in strategic planning and the overall effort to ensure BMO goals are consistent with Agency XYZ research goals. This effort includes annual actions to approve BMO’s annual program plan and operating budget. These actions are persuasive indicators of control.

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Classification as a Consolidation or Disclosure Entity

Evidence suggesting that BMO is a consolidation entity includes the following:

1. BMO provides, as its primary function, research facilities and leadership to university members of UC on a non-market basis. It is financed by taxpayer funds supplemented by non-government donors.
2. Key operational decisions are made by organizational leaders at Agency XYZ who are appointed by the President and confirmed by the Senate.
3. Funds transferred to BMO will be approved through the usual budgetary process so that use of taxpayer funds to support BMO is ultimately decided by the Congress and the President.

Evidence suggesting that BMO is a disclosure entity includes the following:

1. BMO has a legal identity separate from Agency XYZ.

2. The governance structure ensures that universities have substantial input regarding BMO's strategic plans and annual program plan. The significant involvement of non-governmental entities lessens political influence.
3. BMO's liabilities are not obligations of the U.S. government.
4. BMO is authorized to accept donations from non-government entities.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO should be reported as a disclosure entity. As a disclosure entity, BMO should be presented by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred that Agency XYZ should disclose information about BMO because it is assigned administrative responsibility for BMO based on its inclusion of BMO funding in its budget request and its coordination and monitoring of BMO's plans and performance.

Table 1: Summary Application of Proposed Standard

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
ABC Department	Yes				Yes	Entities listed in the Budget are presumed to be consolidation entities.	
Epsilon Corporation	Yes				Yes	Entities listed in the Budget are presumed to be consolidation entities.	
Sigma Association	No	No	Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate and they established its fundamental purpose and mission through legislation.		Yes		Financially independent entity
Scholars University	Yes but as a non-federal organization receiving federal financial assistance.	No	No. Scholars' board of trustees elects its respective board members. Scholars' board of trustees primarily directs the university's affairs and the university seeks sources of revenue to operate virtually in a self-sustaining manner.	Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No		
Education Research Institute	No	No	Yes, the federal government can unilaterally dissolve ERI and have access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is primarily funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and taxpayers assume risk.	

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NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
<u>Mediation Corporation</u>	Yes but as a non-federal organization receiving federal financial assistance. <u>Therefore, must assess against other principles.</u>	<u>No</u>	Yes. Considering the control indicators in the aggregate, the federal government controls Mediation. It provides significant input on the selection of governing board members, appoints a key executive, limits Mediation's capacity to generate revenue, approves the annual budget, requires audited financial statements, and directs Mediation to work with other governments.		Yes		Mediation's governing body is insulated from political influence and risks are not assumed by the taxpayer.
Bicycle America, Inc. (Scenario A)	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment	<u>No, Management and auditor agreement based on facts and circumstances it was not misleading to exclude.</u>	No. <u>Advisory committee offers advice but does not have the authority to direct BA to act.</u>		
Bicycle America, Inc. (Scenario B)	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
<u>Chatham Laboratory (FFRDC)</u>	No	The assets and research results are owned.	Yes. The federal government establishes the purpose and mission of Chatham.		Yes	Yes, Chatham is primarily funded by taxpayers, and governance rests with the President and Congress.	

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NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
Gotham Laboratory	No	No	No	No. Management and auditor agreement based on facts and circumstances it was not material to exclude.	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
Andromeda Prime Power Systems (GSE)	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No. Management determined and the auditor concurred APPS should be disclosed as a related party.		
U.S. Museum (Scenario A)	Yes				Yes	Yes. The Museum is in the budget and primarily funded by taxpayers and governance rests with the President and Congress.	
U.S. Museum (Scenario B)	Yes but as a non-federal organization receiving federal financial assistance	No	Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent entity.
Firefighters' Housing	No	Ownership of property is	Yes. Agency 123 has significant authority to direct the limited		Yes	Yes. Taxpayers fund the housing and risks	

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NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
Limited Partnership		retained.	partnership's activities and to affect day-to-day activities such as in design and construction and the partnership's purpose is to carryout federal missions and objectives.			have been assumed.	
Blue Mountain Observatory (FFRDC)	No	Property is owned by the federal government.	Yes. The federal government establishes the purpose and mission of BMO.		Yes		BMO is a separate legal entity and UC plays a significant role in its governance without political influence.

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APPENDIX D: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
CRE	Component reporting entity
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GPFRR	General Purpose Federal Financial Report
OAI	Other Accompanying Information
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

~~Deleted: DOL U.S. Department of Labor~~

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APPENDIX E: TASK FORCE MEMBERS

Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

Terry Bowie, (formerly of) NASA

Naresh Chopra, Department of Labor

[Wendy Calvin, DOT](#)

Tom Daxon, Former Oklahoma State Auditor

Ann Davis, U.S. Department of Treasury

Lynda Downing, GAO

Abe Dymond, GAO

Joel Grover, U.S. Department of Treasury, OIG

Mark Hadley, CBO

Regina Kearney, OMB

Karen Kelbly, NCUA

Dan Kovlak, KPMG

Rick Loyd, Department of Energy

Ned Maguire, (formerly of) Office of the Dir. of National Intelligence, OIG

Sam Papenfuss, CBO

Reginald Royster, HUD

Fred Selby, U.S. Department of Treasury, OFS

Gary Solamon, Department of Commerce, Bureau of Economic Analysis

Sandy Van Booven, National Reconnaissance Office (CIA)

Denise Williams, U.S. Department of Treasury, FMS

Adrienne E. Young, (formerly of) National Science Foundation

APPENDIX F: GLOSSARY

Component Reporting Entity “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.⁶¹ Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Conservatorship A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company’s directors, officers, and shareholders are transferred to the designated Conservator.⁶²

Control with risk of loss or expectation of benefit Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶³

Disclosures Information in notes or narrative regarded as an integral part of the basic financial statement.

Federally Funded Research and Development Center Federally Funded Research and Development Center (FFRDC) is a government-funded entity that has a long-term contractual relationship with one or more federal agencies.⁶⁴ FFRDCs can be privately owned or government-owned, and they serve to meet the long-term research and development needs of federal agencies that could not otherwise be met as effectively in-house or through existing contractors. 49 Fed. Reg. at 14,464; 48 C.F.R. § 35.017(a). FFRDCs are established either specifically in statute or under the statutory authority of agencies to enter into contracts, which can be inherent or specific authority, and are used to perform research and development and related tasks.

General Purpose Federal Financial Reports General purpose federal financial reports (GPFFRs) is used throughout this Statement as a generic term to refer to the report that contains the reporting entity’s financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government-wide reporting entity is known as the [consolidated financial report of the U.S. Government \(CFR\)](#) and for component reporting entities it is usually included in the [performance and accountability report](#), the [agency financial report](#), or the [annual management report](#).

⁶¹ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶² Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

⁶³ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁶⁴ The OFPP and FAR policies for FFRDCs apply to executive agencies, which includes “an executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. § 9101.” 48 C.F.R. § 2.101; see also 5 U.S.C. § 403.

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Government Sponsored Enterprise Government Sponsored Enterprise (GSE) is created by Congress with its particular attributes defined in its enabling legislation and charter. Despite this diversity, there are at least four readily observable characteristics of GSEs: (1) private sector ownership, (2) limited competition, (3) activities limited by congressional charter, and (4) chartered privileges that create an inferred federal guarantee of obligations.⁶⁵

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Receivership Receivership is the legal procedure for winding down the affairs of an insolvent institution.⁶⁶

Related Party Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

Deleted: Related parties are not controlled or owned by the federal government.

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Reporting Entity Reporting entities are entities that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁶⁷ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
- c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.

⁶⁵ CRS Report for Congress, *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

⁶⁶ *Managing the Crisis: The FDIC and RTC Experience*, Appendix B - List of Abbreviations and Glossary of Terms; available online at <http://www.fdic.gov/bank/historical/managing/>; last accessed October 11, 2012.

⁶⁷ SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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Federal Accounting Standards Advisory Board

REPORTING ENTITY

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by **March 15, 2013**

Month day, year

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation to comment, or preliminary views document may be issued before an exposure draft is released on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

December 13, 2012

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Reporting Entity*, are requested. Specific questions for your consideration appear on pages 5-9 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by March 15, 2013.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing has been scheduled at 9:00 AM on April 24, 2013, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by April 2, 2013, if you wish to provide oral comments at the public hearing.

Sincerely,

Tom L. Allen
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFFRs). The principles proposed to guide financial reporting recognize the complex diverse organizations possessing varying legal designations (for example, government agencies, not-for-profit organizations, corporations) that are used to address public policy challenges. The principles herein are not intended to establish whether an entity is or should be considered a federal agency for legal or political purposes. Rather, this exposure draft (ED) provides principles to guide preparers in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes.

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

This ED also provides criteria for determining the most appropriate means to include information about these organizations, based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis. Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole. Two means of including information are provided—consolidated financial statements and disclosures.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations financed by the taxpayer, governed by elected or appointed officials, imposing risks and rewards on the taxpayer, and providing goods and services on a non-market basis. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in the aggregate – the net cost financed by taxpayers, the assets available for use, and the liabilities to be settled in the future. Organizations to be included in the consolidated financial statements within the GPFFR are referred to as “consolidation entities.”

Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and financial position of the reporting entity. Instead, information about these types of discrete organizations should be disclosed in notes to the consolidated financial statements of reporting entities applying federal financial accounting standards. The disclosures should reveal the

nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Organizations to be disclosed in the GPFFR are referred to as "disclosure entities."

The proposal provides that the GPFFR for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. The Board proposes each component reporting entity include all organizations for which it is accountable. This includes all consolidation and disclosure entities administratively assigned to it.

In addition to the relationships that lead to organizations being included in the GPFFR based on the principles described above, the federal government may have relationships with other parties. The Board also proposes to require disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." The disclosures would provide information about the nature of the government's relationship with the related party and other information to aid in understanding the relationship and its potential financial reporting impact, including exposures to risk of loss or potential gain as a result of the relationship.

The proposed Statement would be effective for periods beginning after September 30, 2015. Earlier implementation is encouraged.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This Statement would improve federal financial reporting by improving guidance for identifying organizations to include in the financial reports of the government-wide reporting entity and component reporting entities. When implemented, GPFFRs will provide users with comprehensive financial information about federal reporting entities, and relevant activities and relationships to meet federal financial reporting objectives.

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

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QUESTIONS FOR RESPONDENTS

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. The Board plans to hold a public hearing on April 24, 2013, and you are welcome to offer oral comments at that time. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by April 2, 2013, if you wish to provide oral comments at the public hearing.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposal may be modified before a final Statement is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

All comments are requested by March 15, 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 19-35 of the proposed standards and paragraphs A12- A35 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.**
- b. **Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**
- 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.**

Q2. The Board proposes distinguishing between two types of entities in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure entities. Consolidation entities generally are (1) taxpayer supported 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 taxpayer, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure entities are those that (1) receive limited or no taxpayer support, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) are more likely to provide goods and services on a market basis, and/or (4) impose limited risks and rewards on the taxpayers.

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

Refer to paragraphs 36- 52 and 63-75 of the proposed standards and paragraphs A30-A51, A60-A62 and A68-A77 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 and disclosure entities? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the attributes used to make the distinction between consolidation and disclosure entities? Please provide the rationale for your answer.**
- c. **Do you agree or disagree with**
 - i. **the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 68),**
 - ii. **the objectives for disclosures (see par. 71), and**
 - iii. **the examples provided (see par. 72)?**

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 entities administratively assigned to it. Administrative assignments can be identified by evaluating:

- a. the scope of the budget process,
- b. whether accountability is established within a component reporting entity, or
- c. 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 53-62 of the proposed standards and paragraphs A52-A58 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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 entities administratively assigned to it? Please provide the rationale for your answers.

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to report in its GPFFR all organizations (which include Funds) 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 different sources—appropriations and donations—which are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 53-63 of the proposed standards and paragraphs A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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

Q5. For consolidation entities, the Statement would require consolidation of FASAB and Financial Accounting Standards Board (FASB) based information without conversion of FASB-based information to a FASAB basis.

Refer to paragraph 64- 65 of the proposed standards and paragraphs A63-A67 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.

Q6. 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 are generally included and those generally excluded.

Refer to paragraphs 76 -85 of the proposed standards and paragraphs A78-A80 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the related party definition and requirements? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.**
- c. **Are there additional exclusions that should be considered? Please provide the rationale for your answer.**
- d. **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.**
- e. **Are there additional organizations that generally should be considered as a related party? Please provide the rationale for your answer.**

Q7. 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 the federal reporting entity's GPFFR from the concepts statement because criteria will be in a standards statement. In addition to these criteria, SFFAC 2 identifies certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that should not be considered part of the government-wide reporting entity. The Board is proposing new principles that should be applied to the entities previously excluded and conclusions reached regarding whether the entities are included in the GPFFR. If a previously excluded entity is to be included based on these principles, principles are proposed to be used to decide whether the entity is a consolidation or disclosure entity. These decisions would affect whether such entities are included in the GPFFR and, if so, how they are reported upon. SFFAC 2 is being amended to remove these specific exclusions.

Refer to paragraphs 86-100 of the proposed standards and paragraphs A81-A84 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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

- b. Do you agree or disagree that the principles should be applied to all entities, including entities previously excluded by SFFAC 2, and a conclusion reached about whether each entity is included in the general purpose federal financial reports and, if so, through consolidation or disclosure? Please provide the rationale for your answer.**

Q8. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2015. Refer to paragraph 100 of the proposed standard.

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

Q9. 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 for the full explanation.

- a. Do you agree the appendices are helpful in the application of the proposed standards?**
- b. Do you believe the appendices should remain after the Statement is issued?**
- 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.**

Q10. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Q11. AV Question

INTRODUCTION

PURPOSE

1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**¹ (GPFFR) for the government-wide reporting entity should be broad enough to reflect the Congress and/or the President's accountability for those organizations. In addition, **component reporting entity** financial reports should allow the Congress and the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards.² Standards that can be used to identify organizations to include in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meeting federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such entities are considered "consolidation entities" or "disclosure entities",³ and what information should be presented. This guidance, together with existing guidance, will ensure that users of GPFFRs are provided with comprehensive financial information about federal reporting entities and their relationships so that federal financial reporting objectives are met. This Statement requires reporting entities to disclose certain information about disclosure entities administratively assigned to them. It does not require new **disclosures** regarding consolidation entities administratively assigned to reporting entities. Any existing required disclosures for the consolidated financial statements of the reporting entity, which include the consolidation entities, would continue to apply.
3. This Statement also guides preparers of GPFFRs in identifying **related parties** and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude information. There are specific disclosures regarding related parties that are in addition to those required regarding disclosure entities.
4. The guidance recognizes an organization's legal form may not reflect the substance of the relationship between the federal government and the organization. As such, the legal form or designation of an organization does not always determine whether it should be reported in the government-wide GPFFR. Even in cases where legislation indicates an organization

¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

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

³ "Consolidation entities" and "disclosure entities" are terms used to distinguish between entities based on the degrees to which the entity is (1) supported by taxpayers, (2) governed by elected or appointed officials, (3) imposing risks on the taxpayer, and (4) providing goods and services on a market or non-market basis. See par. 36 - 52 for more information.

is “not an agency or instrumentality” of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity’s GPFFR. Inclusion results from a need for accountability given the nature of the relationship between the federal government and the organization but inclusion does not change the legal form of the organization.

MATERIALITY

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE AND APPLICABILITY

6. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 65 of this Statement also applies to federal entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable entities preparing and issuing GPFFRs to determine:
 - a. whether SFFAS 34 is applicable to an organization,
 - b. what organizations should be included in the GPFFR of entities applying SFFAS 34,
 - c. the manner in which information should be presented for organizations included in the GPFFR, and
 - d. what disclosures, if any, are needed regarding related parties.

DEFINITIONS

Definitions in paragraphs 8 through 12 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

8. **Reporting Entity** Reporting entities are entities that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁴ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.

⁴ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entities for General Purpose Financial Reporting.

- b. financial statements would provide a meaningful representation of operations and financial condition.
 - c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.
9. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR includes all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.
10. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.⁵ Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
11. **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶ See paragraphs 24 - 33.
12. **Related parties** Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

13. The federal government is unique because its constitutionally established powers, motivations, and functions are different from those of all other organizations. It is an extremely complex organization responsible for the common defense and general welfare of the nation. Although there are various perspectives⁷ for viewing the federal government (for example, a budget or program perspective) an organizational approach was established in SFFAC 2⁸ as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations, and Funds, for which the federal government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

⁵ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁷ SFFAC 2, par. 13-28, discusses the budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

⁸ SFFAC 2, par. 29-38.

14. Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that serve varied purposes and have complex governance structures and finances. In some cases, disclosing financial and other information in the notes about an organization rather than consolidating financial and other information about all organizations may better meet reporting objectives.
15. This Statement first establishes the principles for identifying organizations to include in the government-wide GPFFR (see Principles for Inclusion in the Government-wide GPFFR beginning with paragraph 19) and then distinguishes between consolidation entities and disclosure entities (see Reporting on Organizations—Consolidation or Disclosure beginning with paragraph 36).
16. This Statement also establishes that component reporting entities must include all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Component Reporting Entities beginning with paragraph 57).
17. The Statement provides guidance to classify included organizations as consolidation or disclosure entities (see GPFFR Consolidation and Disclosure beginning with paragraph 63).
18. Lastly, the Statement provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them (see Related Party beginning with paragraph 76).

PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

19. This Statement provides three principles for determining which organizations or Funds should be included⁹ in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 35).
20. An organization¹⁰ meeting any one of the three principles below is included in the government-wide GPFFR:
 - a. In the Budget
 - b. Majority Ownership Interest
 - c. Control with Risk of Loss or Expectation of Benefit

IN THE BUDGET

21. 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*” should be included in the government-wide GPFFR

⁹ “Included” means the information is either consolidated or disclosed.

¹⁰ Organization is used broadly to encompass organizations and Funds in this Statement.

unless it is a non-federal organization receiving federal financial assistance.¹¹ Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Risk of Loss or Expectation of Benefit*) to determine whether they should be included in the government-wide GPFFR.

MAJORITY OWNERSHIP INTEREST

22. The federal government (directly or through its components) may have an ownership interest¹² in an organization. An ownership interest is a legal claim on the net residual assets of an organization such as holding shares or other formal equity instruments. The holding of an ownership interest usually but not always entitles the holder to an interest in voting rights.
23. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets¹³ of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure entity in the government-wide GPFFR.¹⁴

CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

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

Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial resources or non-financial benefits.¹⁵ **Both** the power and either the risk of loss or expectation of benefits aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with risk of loss or expectation of benefit is referred to as “control.”

25. Control refers to the ability to control, whether or not that ability is actively exercised, and should be assessed at the reporting date regardless of the federal government’s ability to change it in the future. In determining whether control exists, it is necessary to determine

¹¹ As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

¹² “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Glossary FASAB Handbook as of June 30, 2011.*

¹³ For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

¹⁴ Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. However, the organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

¹⁵ For example, a non-financial benefit would arise when the federal government receives a service or a service is provided to others on its behalf.

the substance of the relationship between the federal government and the organization as it may not be completely reflected by the legal form of the relationship.

26. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an organization. Rather, it is the federal government's authority to determine or influence the policies governing those activities that indicates control.
27. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall on a continuum. At one end of the continuum, it is clear that an organization does not have the power to act independently and is controlled by the federal government—such as an executive department. At the other end, the organization has the power to act independently and, while the federal government may have a level of influence, it is clear that the federal government does not have control—such as a foreign government.

Indicators of Control

28. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
29. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:
 - a. establish or amend the fundamental purpose and mission of the organization,¹⁶ which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;
 - b. appoint or remove a majority of the governing board members;
 - c. direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or
 - d. dissolve the organization thereby having access to the assets and responsibility for the obligations.

¹⁶ Congressionally chartered nonprofit organizations identified under Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 30 or another indicator in this paragraph.

30. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:
- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
 - b. direct the ongoing use of the organization's assets;
 - c. direct investment decisions including to liquidate investments;
 - d. appoint or remove key executives or personnel;
 - e. approve the budgets or business plans for the organization;
 - f. require audits;
 - g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
 - h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
 - i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
 - j. establish, rescind, or amend the organization's governance framework;
 - k. establish limits or restrictions on borrowing and investments of the organization; or
 - l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

Situations Where Control Does Not Exist

31. Because of the federal government's broad powers and economic influence, control should not be inferred from either:
- a. authority to exercise regulatory powers over an organization; or
 - b. economic dependency of the organization on the federal government.
32. The federal government has the power to regulate many organizations by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of organizations by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated organizations make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes

of this Statement because the federal government’s interest in these organizations extends only to the regulatory aspects of the operations.

33. Certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many nonprofit organizations rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence organizations dependent on federal funding or business through purchasing power, the federal government typically does not govern their financial and operating policies.

MISLEADING TO EXCLUDE

34. There may be instances when an organization does not meet the inclusion principles in paragraphs 19 through 30 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.¹⁷
35. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

REPORTING ON ORGANIZATIONS—CONSOLIDATION OR DISCLOSURE

36. The principles above should be used to assess which organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure entities” as that distinction will determine how the organizations will be reported. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis.¹⁸ Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

CONSOLIDATION ENTITIES

37. The entities that should be included in consolidated financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an entity is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the entity is:
 - a. taxpayer supported, that is financed through taxes, fees, and other non-exchange revenues.
 - b. governed by the Congress and/or the President.
 - c. imposing or may impose risks and rewards on the taxpayer.

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

¹⁸ Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of goods or services.

- d. providing goods and services on a non-market basis.
38. Entities listed in the budget, except for non-federal organizations receiving federal assistance (see par 21), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.
 39. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

DISCLOSURE ENTITIES

40. The federal government may have relationships with organizations afforded a greater degree of autonomy than consolidated entities. Some entities may exercise powers that are reserved to the federal government as sovereign. Other entities may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as entities in **receivership**. To avoid obscuring information about these more autonomous organizations while still being accountable, such entities are to be disclosed rather than consolidated in GPFFRs. Hereafter; these organizations are referred to as “disclosure entities.”
41. Disclosure entities may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
42. Disclosure entities receive limited or no taxpayer support. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the taxpayers. Disclosure entities may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹⁹
43. Disclosure entities may include but are not limited to: quasi-governmental and/or financially independent entities, entities in receiverships and **conservatorships**, and entities owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure entity types are presented to assist in identifying entities that are disclosure entities. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

Quasi-Governmental and/or Financially Independent Entities

44. Quasi-Governmental and/or Financially Independent Entities differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure entities are on a continuum that considers such factors as whether the governance is through

¹⁹ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

appointed officials versus a structure that vests most decision-making authorities in a governing body to insulate the organization from political influence; whether the entity is financed primarily through taxes and other non-exchange revenues versus limited or no taxpayer support; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis.

45. Governance differences typically lead to greater independence. Characteristics may include the following:
 - a. Longer appointments of key executives or governing boards to allow these appointees a degree of independence from the Congress and/or the President
 - b. Delegated operational authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Private sector legal characteristics, such as not-for-profit status under the Internal Revenue Code
 - d. Exemption by statute from laws or regulations dealing with the federal budget, funds, personnel, ethics, acquisition, property, or works
 - e. Voluntary association with the federal government and shared purposes to implement government policies
46. Financial differences typically lead to greater fiscal autonomy. Characteristics may include the following:
 - a. Primarily funded from a source other than appropriations
 - b. Delegated financial authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Principally engaged in selling goods and/or services to organizations outside of the federal government
 - d. Intended, in the normal course of its operations, to maintain its operations and meet its liabilities from revenues received from sources outside of the federal government
47. While not all entities of a given type will meet the characteristics above, examples of the types of entities that may be quasi-governmental and/or financially independent entities include certain **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each entity should be assessed objectively since there are likely to be differences among the entities within these example types such that some should be consolidation entities and others disclosure entities.

Receiverships and Conservatorships²⁰

48. The federal government may take control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. Receiverships or conservatorships are established to liquidate failing financial institutions or to guide such institutions back to safe and sound conditions.²¹ Entities controlled or owned through receiverships or conservatorships are likely to be disclosure entities.

Federal Government Intervention Actions Resulting in Control or Ownership

49. In exceptional circumstances such as economic instability or a national security crisis, the federal government may intervene in organizations not previously meeting the inclusion principles. Interventions arise because of the federal government's broad responsibility for the well-being of the country. Some, but not all, interventions establish ownership or control such that the organization then meets the inclusion principles. Although intervention actions are not expected to be permanent, they may not include a specific time limit.
50. Typically federal government intervention actions are not routine activities. Strategic planning documents are unlikely to include objectives to routinely initiate such interventions or to permanently operate organizations acquired through interventions.
51. Examples of intervention actions resulting in control or ownership include:
- a. The federal government provides financial support and, in doing so, obtains control of an established organization but expects to relinquish or cede control.
 - b. The federal government acquires an ownership interest in an organization but expects to end its interest as soon as practicable.
52. Intervention actions that exist at fiscal year-end must be assessed to confirm the resulting control or ownership is not expected to be permanent. If the intervention activities are not expected to be permanent or other characteristics of disclosure entities exist, organizations controlled or owned as a result of intervention actions would be disclosure entities.

COMPONENT REPORTING ENTITIES

53. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity²² and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs.

²⁰ This type differs slightly from federal interventions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

²¹ For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

²² SFFAC 2, par. 38.

Therefore, component reporting entities must identify and include in their GPFFRs all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

54. A component reporting entity's GPFFR should include all organizations that would allow the Congress and the President to hold its management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and enhance accountability to the public. Each component reporting entity is accountable for all consolidation and disclosure entities administratively assigned to it.
55. Administrative assignments to component reporting entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:²³
 - a. Scope of the Budget Process
 - b. Accountability Established Within a Component Reporting Entity
 - c. Misleading to Exclude and/or Misleading to Include

SCOPE OF THE BUDGET PROCESS

56. Consolidation and disclosure entities subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
 - a. all consolidation entities listed within its section of the *Budget of the United States Government: Analytical Perspectives--Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" and
 - b. all disclosure entities included within its Congressional Budget Justification.²⁴

ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

57. Consolidation and disclosure entities for which a component reporting entity has been assigned accountability responsibilities should be included in its GPFFR. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional

²³ Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.

²⁴ The Congressional Budget Justification is the document submitted annually to Congress to justify an organization's budget request.

judgment. Indicators²⁵ that accountability has been established in the component reporting entity include:

- a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.²⁶
- b. An organization is included in the component reporting entity's published organization chart.
- c. The component reporting entity acquires and/or monitors²⁷ ownership interests in organizations where there are ongoing responsibilities²⁸ such as:
 - i. coordinating and/or conveying input on strategic plans,
 - ii. providing appropriated funds to the organization and receiving requests for funding in the current and/or future years,
 - iii. administering any federal grants or contracts awarded to the organization,
 - iv. monitoring activities and/or reporting on outcomes, or
 - v. monitoring the value of the ownership interest.
- d. A controlled organization²⁹ was established by statute or by action of the component reporting entity to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include those in which the component reporting entity:
 - i. approves bylaws including any amendments,
 - ii. is represented on the governing board (for example, as an ex-officio member),
 - iii. appoints members of the governing board,
 - iv. coordinates and/or conveys input on strategic plans,
 - v. monitors organizational performance,
 - vi. approves budgets, operating plans, or contracts with others,
 - vii. establishes and executes cooperative agreements with the organization,

²⁵ These indicators provide evidence that accountability was established or was assigned to a component reporting entity. Meeting any one would typically mean accountability was established.

²⁶ For example, the U.S. Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the U.S. Department of Commerce.

²⁷ Such responsibilities may be assigned to a program office.

²⁸ These responsibilities are examples of actions or activities performed by the component reporting entity that are indicative of monitoring an ownership interest in an organization, which is an indicator of accountability.

²⁹ Where control exists at the government-wide level based on paragraphs 24-33.

- viii. administers federal grants to or contracts with the organization,
 - ix. testifies before Congress regarding entity performance and objectives, or
 - x. has significant financial transactions or balances that indicate ongoing managerial involvement.
58. If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:
- a. Disclosure entities should be included in the GPFFR of each component reporting entity assigned such responsibilities.
 - b. Consolidation entities should be administratively assigned to only one component reporting entity.³⁰ The component reporting entity assigned the largest share³¹ of responsibilities described in paragraph 57 generally should include the consolidation entity.
59. If a disclosure entity has not been administratively assigned to a consolidation entity, the disclosure entity should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosure entity or (b) with which its mission most closely aligns.

MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

60. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 56-59 yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFFR.³²
61. There may be instances where applying the principles in paragraphs 56-59 to consolidation entities, would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger entity while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.
62. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of

³⁰ Note that the component reporting entity to which a consolidation entity is administratively assigned may also be administratively assigned to a higher-level component reporting entity.

³¹ Largest share as used here is based on the most significant administrative role.

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

professional judgment. Examples³³ of indicators that it may be misleading to include an organization are:

- a. The budget submission is combined for procedural purposes only, as indicated by:
 - i. the budget request not being approved by component reporting entity management, or
 - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
- b. The component reporting entity provides no direct oversight of the organization.
- c. The organization's funding is separate from the component reporting entity's funding.
- d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
- e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time.
- f. The organization provides financial data directly to the Department of the Treasury for the government-wide GPFRR.

GPFRR CONSOLIDATION AND DISCLOSURE

CONSOLIDATION ENTITIES

63. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position³⁴ of the federal government and the cost of operations financed by taxpayers. Component reporting entities should consolidate the financial information for all consolidation entities administratively assigned to them. Consolidation³⁵ aggregates the individual financial amounts of entities comprising a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

³³ The indicators listed in 62 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

³⁴ The consolidated financial statements should include amounts and balances, consistent with applicable accounting standards, even if the amounts and balances arise from or are supported by different funding sources (e.g., appropriations or donations).

³⁵ Consolidation is a method of accounting that combines the accounts of those entities line by line on a uniform basis of accounting and eliminates balances and transactions among the entities. For selected financial statements such as the statement of budgetary resources, a combined financial statement which does not eliminate balances and transactions among the entities is acceptable.

64. Consolidation entities as defined herein are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.
65. SFFAS 34 recognizes that a limited number of federal entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

DISCLOSURE ENTITIES

66. Maintaining a distinction between the finances of consolidation entities and disclosure entities will more effectively meet federal financial reporting objectives. However, federal financial reporting objectives cannot be fully met without information regarding disclosure entities.
67. For those organizations classified as disclosure entities, this Statement provides for judgment by the preparer in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure entities should be disclosed in accordance with ***Disclosure Requirements*** as detailed in par. 69 to 72 below after considering the factors listed in par. 68.

Factors in Determining Disclosures

68. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented for disclosure entities. Beyond materiality, the following factors³⁶ should be considered in making judgments about the extent of appropriate disclosures:
- a. ***Relevance to reporting objectives*** – Significance of the disclosure entity to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the consolidation entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.

³⁶ The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

- b. ***Nature and magnitude of the potential risks/exposures or benefits associated with the relationship*** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure entity’s operations.
- c. ***Disclosure entity views/perspective*** – (Entities determined to be a disclosure entity in accordance with paragraphs 40 — 43.) Information about how the disclosure entities account for or report on their relationship with the federal government. For example, whether the disclosure entity views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.
- d. ***Complexity of the relationship*** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
- e. ***Extent to which the information interests, or may be expected to interest, a wide audience*** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure entity or its relationship with the federal government.
- f. ***Extent to which there are no alternative sources of reliable information*** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.

Disclosure Requirements

- 69. In addition to the factors presented in par. 68 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure entity should be presented separately due to its significance or aggregated with the information regarding other disclosure entities. If information is aggregated, aggregation may be based on disclosure entity type, class, investment type, or a particular event deemed significant to the reporting entity.
- 70. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure entity and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure entity. For example, a reference may be made to a note regarding investments in the disclosure entity.
- 71. For each significant disclosure entity and aggregation of disclosure entities, information should be disclosed to meet the following objectives:³⁷
 - a. ***Relationship and Organization***: The nature of the federal government’s relationship with the disclosure entity or entities

³⁷ The objectives are not listed in any order of preference.

- b. **Relevant Activity**: Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. **Future exposures**: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure entity

72. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure entity's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.³⁸ In determining what information is needed to meet the objectives in paragraph 71, the factors in paragraph 68, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.

- a. The name and description of the disclosure entity,³⁹ including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
- b. The nature of the relationship between the federal government and the disclosure entity including relevant information regarding:
 - i. How any control or influence over the disclosure entity is exercised
 - ii. Key terms of contractual agreements, statutes, or other legal authorities
 - iii. The percentage of ownership interest and/or voting rights
- c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure entity and/or a statement that the intervention is not expected to be permanent
- d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure entity and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
- e. A discussion of the disclosure entity's key financial indicators and changes in key financial indicators

³⁸ No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 71 should be provided.

³⁹ For simplicity, information is described in relation to a single disclosure entity. Nonetheless, the information may be presented for an aggregation of similar disclosure entities.

- f. Information regarding the availability of the disclosure entity's annual financial report and how it can be obtained
 - g. In the event that contractual agreements, statutes, or other legal authorities obligate the consolidation entity to provide financial support to the disclosure entity in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
 - h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the entity during the period
 - i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure entity, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
 - j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure entity's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable
73. Any disclosure entity financial information presented in the GPFFR should be based on accrual-basis standards provided in generally accepted accounting principles or an other comprehensive basis of accounting developed for its specific type of entity.⁴⁰ This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).
74. When information is derived from the disclosure entity's financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure entity's reporting period differs from the government-wide reporting entity's and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure entity's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.
75. Significant changes in information occurring from the end of the disclosure entity's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

⁴⁰ Consolidation entities should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

RELATED PARTY

76. In addition to entities for which the Congress and the President are accountable,⁴¹ the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.⁴² Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.
77. Related parties: Organizations are considered to be related parties if the existing relationship⁴³ or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
78. Significant influence (for the purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
79. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
80. Although significant influence exists among the component reporting entities of the federal government, component reporting entities are subject to the overall control and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
81. Related parties *generally* would include (see paragraph 82 for organizations *generally* not included) but are not limited to:
- a. **Government sponsored enterprises** not meeting the Inclusion Principles
 - b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, multi-lateral development banks)
82. In the context of this Statement, the following generally would not be considered related parties:

⁴¹ Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation or disclosure entity and not be subject to related party reporting.

⁴² Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

⁴³ Relationship as used in this context refers to material transactions or events involving both parties.

- a. Entities meeting the Inclusion Principles
 - b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations⁴⁴
 - c. Key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families
 - d. Foreign governments
 - e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
 - f. Special interest groups⁴⁵
83. Although paragraph 82 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 84.
84. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:
- a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
 - b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
 - c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.
85. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:
- a. Nature of the federal government's relationship with the entity, including the name of the entity or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.

⁴⁴ However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

⁴⁵ Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.

- b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

EFFECT ON EXISTING CONCEPTS—PROPOSED AMENDMENTS TO SFFAC 2, *ENTITY AND DISPLAY*

- 86. The purpose of this section of the Statement is to propose amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, as described in the following paragraphs.
- 87. Conforming changes have been proposed to SFFAC 2. Conforming changes were not needed in paragraphs 11- 37 and these paragraphs were retained in SFFAC 2 as they provide concepts regarding reporting entity. Conforming changes were not considered regarding paragraphs 54 – 77 and paragraphs 79 – 112 because they address concepts outside the scope of this Statement.
- 88. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.

The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

- 89. Paragraphs 3 - 5 are rescinded because the preamble applicable to all concepts statements, which was adopted at the time SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* was issued, addresses the topics covered.
- 90. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFRR:
 - 6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established in SFFAC 1, it is clear accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.
- 91. Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.

92. Paragraph 10, first bulleted item is amended by replacing it with the following bulleted item addressing an understanding of what the reporting entity entails:

- ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

93. Paragraph 38 is amended to exclude references to other paragraphs amended by this Statement. Paragraph 38 is replaced with the following:

The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

94. Paragraphs 39 -50 are rescinded because the standards herein provide guidance on the same matters. It is not necessary or appropriate to retain the guidance in SFFAC 2.

95. The sub heading before paragraph 51 - "Other Aspects Concerning Completeness of the Entity" - is revised to read "Other Aspects Concerning Completeness of the Component Reporting Entity."

96. Paragraph 51 is replaced with the following:

Identifying the organizations to include in the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within parameters more appropriately established in accounting standards, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

97. Paragraphs 52 – 53 are rescinded because these paragraphs relate to issues covered in standards and are not necessary for understanding the notion of the reporting entity.

98. A new sub-heading "Need to Distinguish between Consolidation and Disclosure Entities" is inserted at paragraph 53A.

99. Insert Paragraphs 53A – 53 E under the sub-heading: "Need to Distinguish between Consolidation and Disclosure Entities" - The proposed language provides a high level explanation of consolidation and disclosure entities. These are new terms introduced in the proposed Statement and critical to understanding the reporting entity concept in the

federal government. More importantly, the proposed language describes the need to distinguish them and the reason for this distinction in terms of financial statement presentation.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct entities are referred to collectively as “disclosure entities.”

53B. Disclosure entities may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure entities’ relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation and disclosure entities should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure entities. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure entities are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure entities often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all entities likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure entities.

53D. Maintaining a distinction between consolidation entities and disclosure entities may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure entities. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure entities.

53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of entities comprising a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

100. Paragraph 78 is rescinded because it is not conceptual guidance. It identifies an expectation that material differences between the recognition and measurement requirements under the Financial Accounting Standards Board and the FASAB standards will be adjusted before consolidation.

EFFECTIVE DATE

101. This Statement is effective for periods beginning after September 30, 2015. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Introduction

- A1. The federal government and its relationships with other organizations have become increasingly complex. These complex relationships make it difficult to identify federal entities for financial accountability purposes. In addition, some organizations may be viewed as “non-federal” and yet be owned or controlled by the federal government. Identifying the organizations to be included in the government-wide and component reporting entity general purpose federal financial reports (GPFFRs) is necessary to ensure the completeness of the GPFFR.
- A2. The GPFFR should include the varied organizations for which the Congress and/or the President are accountable regardless of their form. Therefore, the primary reason for developing standards for the government-wide and component reporting entity GPFFRs is to ensure that users will be provided with complete financial information about the federal government. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included in the entity, questions have continued in this area that resulted in the need for standards.

Project History /Task Force

- A3. In 2008, the Board formed a task force to support the project. The objective of the task force was “to assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included.”
- A4. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were presented to the Board for its consideration during the development of these proposed standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. (See Appendix E for a list of task force members.)

Organizational Approach to Defining Boundaries

Underlying Concepts

- A5. The federal government is complex and therefore defining the boundary of GPFFRs may be difficult. Its constitutionally established powers and often its motivations and functions are different from other organizations. Despite these complexities, difficulties, and differences, accountability is a fundamental goal of financial reporting. As noted in SFFAC 1:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and

must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.⁴⁶

- A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraph 71 and 72 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability."
- A7. SFFAC 1 explains that the federal government has a special responsibility to report on its actions and the results of those actions. SFFAC 1 discusses the information needs of both internal and external users including the citizens, their elected representatives, federal executives, and program managers because meeting user information needs is an essential part of accountability in government.
- A8. An organizationally based approach to defining boundaries supports accountability to all users but particularly to external users who may be unaware of the nature of organizational relationships. Focusing on organizations helps to identify who is accountable and for what. In addition, an organizational approach provides meaningful financial statements by aligning boundaries with defined organizations for which there would likely be users of GPFFRs.⁴⁷

Identifying and Classifying Organizations

- A9. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable. This Statement provides that reporting entities should first identify what organizations, and Funds, are to be included⁴⁸ in the reports. The three principles for including organizations in the government-wide GPFFR are: In the Budget, Majority Ownership Interest, and Control with Risk of Loss or Expectation of Benefit. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it.
- A10. Next, for those organizations to be included, a distinction is made between consolidation entities and disclosure entities. This distinction determines how financial information is to be presented in the GPFFR. Consolidation entity financial information is to be presented in consolidated financial statements and related notes. Disclosure entity financial information is to be disclosed in notes to the financial statements.
- A11. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which organizations should be included⁴⁹ in the government-wide GPFFR because of the wide and varying relationships of the federal government. General purpose federal financial reports for the government-wide reporting entity should be broad enough to report the Congress

⁴⁶ SFFAC 1, paragraph 8.

⁴⁷ See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

⁴⁸ "Included" means an organization's information is either consolidated or disclosed.

⁴⁹ Note that this Statement does not specify which organizations must prepare and issue financial statements.

and the President’s accountability for organizations. This ensures that the financial reports contain all the information essential for fair presentation of the government’s financial position and results of operations.

Principles for Inclusion in the Government-wide GPFFR

In the Budget

A12. Identification of an organization in the President’s Budget is the clearest evidence that an entity should be included in the government-wide report. Absent budgetary actions – originating with the President’s Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.”

A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.⁵⁰

A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled “*Federal Programs by Agency and Account*” may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

A15.

Organizations Receiving Federal Financial Assistance

A16. The schedule entitled “*Federal Programs by Agency and Account*” also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the “*Federal Programs by Agency and Account*” schedule sometimes names an organization to receive a “subsidy” and states “This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.” Thus, “subsidy” is the term used in SFFAC 2 to distinguish such “non-federal” organizations from the organizations intended to be included in the GPFFR.

A17. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to define “subsidy” but concluded it was more appropriate to rely on the existing definition of “federal financial assistance.”

⁵⁰ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

A18. The proposed language ensures organizations that receive assistance as defined by the Single Audit Act Amendments of 1996⁵¹ but listed under an appropriation in the schedule entitled “*Federal Programs by Agency and Account*” aren’t automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believes a means to confirm whether specifically identified recipient organizations are “non-federal organizations receiving federal financial assistance” is needed. When such organizations are listed in the budget, they should be assessed against the “majority ownership interest” and “control with risk of loss or expectation of benefit” principles before being excluded from the government-wide GPFFR.

A19. Generally, the Board believes preparers can identify organizations that are in fact receiving “subsidies” as described by SFFAC 2. The Statement provides that although these may be listed in the budget they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the “*Federal Programs by Agency and Account*” schedule or refer to other budget documents because such treatments may change.

Organizations Partially in the Budget

A20. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President’s Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the “in the budget” principle. The Board further decided that such organizations should be presented in the same manner as other consolidation or disclosure entities, as discussed later in the Statement. Therefore, the language in the principle (“in the budget”) does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization – in its entirety – is either a consolidation or a disclosure entity. Further, paragraph 38 provides that entities listed in the budget are presumed to be consolidation entities.

Need for Additional Principles

A21. While the principle “in the budget” is the most efficient means to identify organizations for inclusion, there are additional principles to be considered to identify other organizations that should be included in the government-wide GPFFR. The budget principle represents a starting point in analysis but accountability goals could not be met solely through that principle. Because the budget’s purposes differ from financial reporting objectives in many respects (such as the focus on the allocation of budgetary resource flows versus costs of operations), it is possible that organizations or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports. For example, some organizations may be established to operate in a manner similar to businesses and excluded from the budgetary process. Therefore, additional inclusion principles are necessary to ensure completeness in the context of the federal financial reporting objectives.

⁵¹ “Federal financial assistance” is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

Majority Ownership Interest

A22. Ownership interests typically provide owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about service efforts, costs, and accomplishments be made available. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR. As described in the Statement, majority ownership interest exists with over 50 percent of the voting rights or the net residual assets of an organization.

A23. The Board noted that some may wonder how to account for minority ownership interests (less than 50 percent). The Board agreed addressing minority interests through the project is likely to be less effective than allowing the GAAP hierarchy to fill any void. To address the potential question, the Board included within the Statement a footnote stating ownership interests 50 percent or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

Control with Risk of Loss or Expectation of Benefit

A24. When the federal government controls an organization with risk of loss or expectation of benefit, the organization should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss or expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

A25. For example, the Statement provides for situations where the risk of loss or expectation of benefit does not exist—in the instance of the federal government exercising regulatory powers over an organization. In these cases, the federal government is unable to exercise that power for its own benefit and rarely explicitly assumes risk of loss. Therefore, including such an organization in the GPFFR would misrepresent the financial position and results of operation of the government. This would not support achievement of the objectives of financial reporting.

A26. For financial reporting purposes, assessment of control is made at the reporting date and based on current legislation, rather than legislation that may or may not be enacted in the future.

A27. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization.

A28. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be

non-financial. For example, it may be in the form of a service provided on the federal government's behalf or the ability to direct the work of the other entity to deliver goods and services.

Misleading to Exclude

A29. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

A30. The Board also believes the provision is consistent with the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. It provides for those unique situations where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.

Reporting on Organizations—Consolidation or Disclosure

A31. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure entity.

A32. Different means of presenting relevant information are provided for consolidation and disclosure entities.⁵² The distinction between consolidation entities and disclosure entities is based on the degree to which the following characteristics are met: the entity is taxpayer supported, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the taxpayer, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure entities that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual entity is more useful than consolidation of the individual entity's financial statements in the government-wide financial statements. In other instances, consolidation of individual entities' financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A33. While principle-based standards do not explicitly classify specific entities as consolidation or disclosure entities, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation or disclosure entity might be applied to certain significant individual entities or classes of entities. For many classes of

⁵² Consolidated financial statements provided for "consolidation entities" will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

entities, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant entities with particularly unique characteristics, such as the Federal Reserve System, a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A34. The role of preparers and auditors is to assess each entity against the principles in paragraphs 19 – 52 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should develop standards, either in this Statement or in a future Statement, that explicitly address reporting on the Federal Reserve System (FRS) in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central bank, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors in making decisions would consider the appropriate matters. The majority of the Board believes the proposed principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation or disclosure entity.

A35. If the assessment of the FRS⁵³ resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as well as assets for investments in non-federal entities. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A36. If the assessment of the FRS resulted in its classification as a disclosure entity, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to taxpayers. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results

⁵³ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

Consolidation entities

A37. Consolidation entities generally provide goods and services on a non-market basis. That is, prices are not established solely through market transactions where supply and demand determine price. Goods and services provided on a non-market basis may be free of charge or provided at prices that are either not economically significant or bear little relationship to the cost of the goods or services.

A38. Consolidation entities are financed through taxes, fees and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the taxpayer for consolidation entities. Inclusion in the budget is the clearest evidence an entity is relying on the taxpayer and that elected officials are key decision makers.

A39. The budget is a political document serving many purposes. The 1967 *Report of the President's Commission on Budget Concepts* indicates that "the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth." On the topic of coverage of the budget, the Commission recommended that "the budget should, as a general rule, be comprehensive of the full range of Federal activities." Because the budget includes "federal activities," entities listed in the budget, except those receiving federal financial assistance, are presumed to qualify as consolidation entities.

A40. The assessment of whether an entity meets the attributes for a consolidation entity is based on the assessment of all the attributes and the degree to which each is met. As such, not all attributes are required to be met; classification is based on the assessment as a whole. For example, the post office may compete against other organizations; therefore it may be viewed as providing goods and services on a market basis. However, if it primarily meets the remaining characteristics then it is a consolidation entity.

Disclosure entities

A41. Disclosure entities receive limited or no taxpayer support. Disclosure entities, in contrast to consolidation entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. Disclosure entities have relative financial independence and often provide goods and services on a market basis. This is an effort to shield the federal government and the taxpayer from risk.

A42. In addition, another contrast with consolidation entities is that with disclosure entities, the Congress and/or the President have much less direct involvement in decision-making. Decision-making may rest with a governing board insulated from political influence and there may be situations where disclosure entities may have a separate legal identity.

A43. It is important to recognize the continuum that exists among disclosure entities. For example, despite a greater degree of autonomy, some disclosure entities may still exercise powers that are reserved to the federal government as sovereign. Other disclosure entities may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory or intervention actions.

A44. The Statement provides categories of disclosure entities primarily as a way to help identify disclosure entities. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about disclosure entities. The categories of disclosure entities include quasi-governmental and/or financially independent entities, receiverships and conservatorships, and federal government intervention actions.

Quasi-Governmental and/or Financially Independent Entities

A45. The Statement describes quasi-governmental and/or financially independent entities as those disclosure entities where governance and/or financial differences lead to greater independence. The Statement provides both governance and financial characteristics that would be found in this type of disclosure entity.

A46. Quasi-governmental and/or financially independent entities may include certain FFRDCs, museums, performing arts organizations and universities, and venture capital funds. Because details may differ among organizations in each example type, an objective assessment may classify some individual organizations as consolidation entities rather than disclosure entities. Appendix C- Illustrations offers examples that may be useful in application.

Receiverships and Conservatorships

A47. The Statement describes receiverships and conservatorships as disclosure entities. This includes those failed financial institutions and banks the federal government takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned entities would be disclosure entities.

Federal Government Intervention Actions

A48. The Statement describes federal government intervention actions as disclosure entity involvements resulting from exceptional circumstances where the involvements are not expected to be permanent. SFFAC 1 acknowledges the unique nature of federal government activity and its broad responsibilities. Paragraph 50 explains “The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power. The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society...” SFFAC 1 describes the federal government’s responsibility for the general welfare of the nation in paragraph 53-54 as “a broad responsibility that involves multiple goals.”

A49. With these broad responsibilities, the federal government may decide to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets, key industries, states, cities, counties, or military occupation of

another country.⁵⁵ These types of federal government interventions are considered rare.⁵⁶ Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.⁵⁷ Although the federal government does not act to maximize profits, the federal government may intervene and act in capacities to protect taxpayers. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

A50. The federal government may also intervene by providing assistance through extending loans or debt guarantees that do not meet the inclusion principles established in this Statement. Such transactions should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. This Statement does not include additional disclosures for such intervention actions.

A51. Currently SFFAC 2 provides an exception for situations where the criteria leading to consolidation are met temporarily. Specifically, paragraph 45 of SFFAC 2 states “The entity or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics are more than fleeting.” “Fleeting” may imply periods of one year or less to some and the Board considered how to clarify the term “fleeting.” Ultimately, the Board decided terms such as “fleeting” and “temporary” implied a time limit.

A52. However, there may be instances where an intervention is longer than one year due to the extreme factors of the national crisis. In most instances, it is difficult to establish and meet a timeline for ending an intervention. In these instances, the focus continues to be on governance and protection, rather than maximizing profits or establishing new federal government lines of business. Although the actions may be longer than one year, the interventions are “not expected to be permanent.” The Board established this “non-permanent” expectation as a characteristic of disclosure entities rather than relying on “temporary” or “fleeting” to avoid the implication that a time limit could be established.

Component Reporting Entities

A53. The Board believes there should be consistency in treatment of organizations at the government-wide and the component reporting entity levels. The reasons for including entities at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation or disclosure entities would be consistent in government-wide and component reporting entity GPFFRs. The Board believes a single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. This is appropriate and necessary because the government-wide reporting entity is the only federal reporting entity that is an independent economic entity.

⁵⁵ After the signing of the Japanese Instrument of Surrender in 1945, Japan was supervised for 6 years by the Allied (primarily American) forces and subject to military control, with General MacArthur at the head of the Occupation administration. (Takemae, Eiji; 2002, p. xxvi)

⁵⁶ The financial crisis that began in 2007 is considered to be the most severe since the Great Depression. (White Paper on Changes to Financial Regulations)

⁵⁷ CRS Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

A54. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation and disclosure entities for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A55. The Board believes that component reporting entities should identify consolidation and disclosure entities administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (appointed officials) are expected to be accountable.

A56. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs would be complete.

A57. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

A58. Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

A59. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts.

GPFFR Consolidation and Disclosure

A60. As noted above, decisions about the government-wide GPFFR require determining what organizations are to be included in the reports and identifying appropriate means to present relevant information about organizations. The final determination of the presentation of financial information through consolidation or disclosure is based upon the results of two

assessments—first if the organization is included and second, if those included organizations are classified as consolidation or disclosure entities.

A61. The Flowchart at Appendix B is a useful tool in applying the principles established. It is helpful in the assessment and applying the standards in order. It includes paragraph references to underlying principles and major decision points.

Consolidation entities

A62. The Statement provides that consolidation entities should apply SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. In addition, it provides for the consolidation of the financial statements of consolidation entities so taxpayers and citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the taxpayer supported activities, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

A63. Existing guidance may also require additional information—either through disclosures or required supplementary information—regarding consolidation entities. While the term “disclosure entities” is used to refer to entities included in GPFFRs through disclosures, readers should not infer that disclosures would not also be provided regarding consolidation entities and related activities and transactions consistent with existing standards.

Consolidation of FASB-based and FASAB-based Information

A64. The Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

A65. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components’ financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity’s financial statements. If these differences are material, the standards

recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.⁵⁸ (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

A66. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there are significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger entities may not be justifiable since conversion may not aid users.

A67. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger entities; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement proposes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A68. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

Disclosure entities

A69. The Board believes consolidation of disclosure entities would not result in information meeting the basic qualitative characteristics of information in financial reports because it would not provide the most relevant, understandable, or consistent information. The Board believes consolidation of disclosure entities may obscure the boundaries of the risks and rewards intended to be assumed or gained. Further, assets that are not available for purposes other than the specific business operation of the non-consolidated entity might be commingled with federal assets, and liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for entities having the characteristics of disclosure entities should be kept separate from balances and amounts for those entities having the characteristics of consolidation entities to prevent unintended distortions to the consolidated financial statements.

A70. The Board believes SFFAC 1 recognizes the challenges that may arise in applying traditional approaches to financial reporting. SFFAC 1 par. 49 states “...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government.” SFFAC 1 par. 105 further explains “reports must accurately reflect the distinctive nature of the federal government and must provide

⁵⁸ In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.

information useful to the people, their elected representatives, and federal executives...” SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.⁵⁹

A71. The Statement provides flexibility in identifying needed information regarding disclosure entities because the range of disclosure entities is broad and different information may need to be disclosed to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the consolidation entity’s financial statements.

Factors in Determining Disclosures

A72. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors or guidance to assist in determining what disclosures to include. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosure entity presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of information regarding a disclosure entity to be provided.

A73. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. The assessment of the appropriate disclosures should be made after considering all the factors.

Disclosure Requirements

A74. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives. Care should be taken to ensure the objectives are met, without producing unintended consequences. Preparers should keep in mind there are associated costs and potential audit implications with any information included in a GPFFR. Incorporating by reference or including summary financial statements or summary financial information generally would result in an auditor being required to gain audit assurance on that information and thereby may result in additional audit costs.

A75. The Board believes any financial information about disclosure entities in the government-wide GPFFR should be based on accrual basis standards specific to the type of entity while minimizing additional costs on the disclosure entity. Therefore, there will be instances where information about disclosure entities is based on reporting periods that differ from the GPFFR reporting period. The Board agreed that if disclosure entities have a different reporting period than the government-wide GPFFR, disclosure of information from a reporting period ending within the government-wide reporting entity’s reporting period is acceptable. The Board performed outreach on this issue to the audit community and to the federal entity task force. Generally, the feedback supported this approach.

A76. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the information as a result of events occurring after the issuance of the disclosure entity’s audited financial statements and before the issuance of

⁵⁹ SFFAC 1, par. 156.

the reporting entity's audited financial statements for a later fiscal year-end. The Board notes this would only be necessary if a disclosure entity's summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

A77. The Board is especially concerned with the interpretation by the users and preparers regarding the requirements for disclosure entities and ultimately how they would affect the display and disclosures. The Board believed this would be an important consideration during deliberations and invited the assistance of the Department of the Treasury and a potential included organization in preparing a draft Illustration of a disclosure based on the draft requirements.

A78. Although the Board believed some enhancement of the draft standards was in order to encourage concise and transparent disclosures, the Board agreed the inclusion principles were appropriate. Further, the flexibility provided within the disclosure requirements, along with the factors to consider, were preferable to prescribing information required regarding specific entities. The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other enhancements to the draft disclosures. This need arose because of the complexity of the relationships being described, transactions affecting multiple assets and liabilities being reported, and the desirability of an integrated set of disclosures. The Board subsequently modified the draft disclosure requirements to emphasize integration of disclosures.

Related Party

A79. The Board determined it should define "related party" and address it within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

A80. Because of the extent of the federal government's relationships – whether already established or implied – "related party" concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The related party category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

A81. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other domains. The Board discussed whether jointly controlled component reporting entities should disclose information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting

entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, they preferred that OMB explore options for additional guidance through Circular A-136, *Financial Reporting Requirements*, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

Proposed Amendments to SFFAC 2, Entity and Display

A82. The Statement proposes amendments to SFFAC 2, *Entity and Display*. The Statement provides a description of the change to SFFAC 2 and an explanation as to why the change is being made. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.

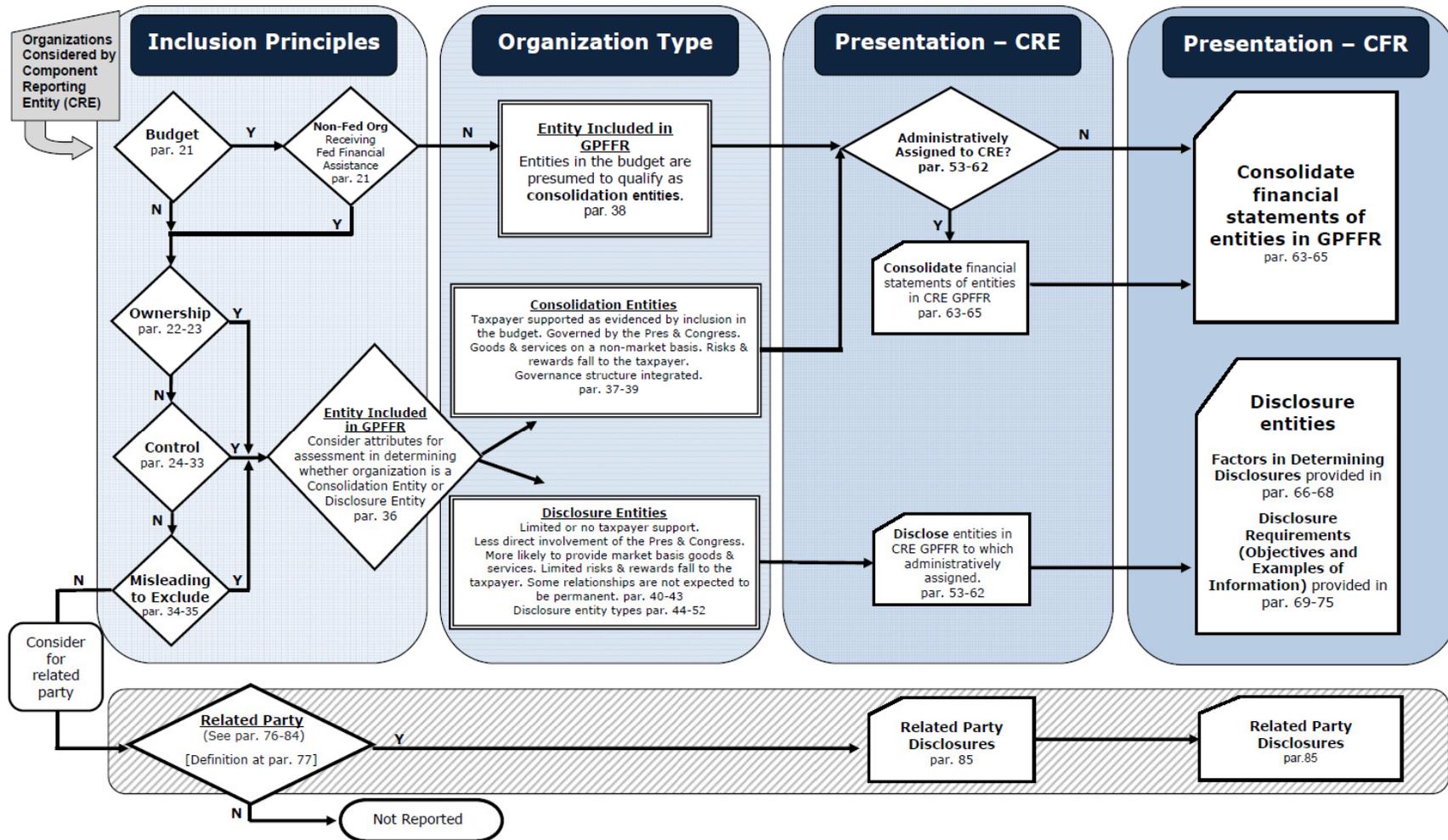
A83. Paragraphs 54—77 and 79 – 112 address concepts outside the scope of this Statement and are not amended.

A84. In addition, no changes are proposed to paragraphs 11-37 of SFFAC 2 because the Board believes these paragraphs provide the conceptual underpinning for understanding the structure of the federal government and how this relates to reporting entities for general purpose federal financial reporting. Although there may be some small differences in terminology in those paragraphs, the Board did not believe they were significant enough to warrant amendments.

A85. Paragraphs 47-50 of SFFAC 2 identify certain entities or types of entities (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The new principles can be applied to the entities previously excluded and conclusions reached to include the entities—either as consolidation or disclosure entities—or to continue to exclude the entities. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

APPENDIX B: FLOWCHART

FLOW CHART (Appendix B)



APPENDIX C: ILLUSTRATIONS

Preamble

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

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

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

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

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

ABC Department

(In the Budget—Consolidation Entity)

Assumed Facts and Circumstances

Congress established ABC Department (ABC), a federal organization, to promote entrepreneurship and innovation as a means to address national economic and environmental challenges. Provisions that govern ABC are generally prescribed in legislation and ABC accomplishes its mission through the activities of various bureaus, grants to research institutions, and contracts with universities and not-for-profit organizations.

The executive leadership of ABC consists of a secretary, deputy secretary, and three assistant secretaries. The President nominates and the Senate confirms each of these officials. These officials serve at the pleasure of the President. ABC is subject to all laws and regulations applicable to executive branch agencies.

ABC relies on appropriated public funds to conduct its mission and is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” The President and the Congress consider ABC’s requests for resources and determine the amount that should be budgeted to provide services. Furthermore, ABC is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

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

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

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

Epsilon Corporation

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon’s activities. Epsilon is governed by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. The Congress monitors Epsilon’s activities by conducting hearings on Epsilon’s programs and requesting Government Accountability Office (GAO) and Office of Inspector General (OIG) audits.

Epsilon is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” Epsilon receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the entity may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

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

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

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

Tentative Conclusions

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

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

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

Sigma Association

(Control based on Persuasive Indicator - Disclosure Entity (financially independent))

Assumed Facts and Circumstances

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

Sigma is governed by a ten-member board of directors. Five members are appointed by the President and confirmed by the Senate. Four members are elected by industry members. The Secretary of Agriculture (or his/her designee) serves as a voting ex-officio member of the board. No more than three of the appointed members may be from the same political party. Board members serve seven-year terms and can only be removed for cause (meaning they may not be removed for policy decisions). Also, Congress monitors Sigma’s activities by conducting hearings on Sigma’s programs and requesting GAO audits.

Sigma is financed by fees imposed on industry members. Sigma’s board of directors must establish an annual budget and legislation limits how Sigma can invest proceeds from fees and, to help ensure that Sigma remains financially viable, legislation requires Sigma to have a reserve fund. The board of directors determines the level of the reserve fund after considering input from industry members. If Sigma encounters a shortfall, it may borrow a limited amount from the U.S. Department of the Treasury (Treasury), but any additional funding requirements must be obtained from future fee assessments on industry members.

Tentative Conclusions

Based on the assumed facts and circumstances, and other considerations, management determined and the auditor concurred that Sigma should be included in the government-wide GPFFR because Sigma meets the third inclusion principle (control with expected benefits or risk of loss). Indicators that the federal government can control Sigma are that the Congress and the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

Classification as a Consolidation or Disclosure Entity

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

Evidence suggesting that it is a disclosure entity includes:

1. Taxpayer support is not provided for ongoing operations.

2. The corporation is relatively financially independent because it is primarily funded from a source other than appropriations. Its budget and fees are not subject to Congressional or Presidential approval.
3. Having seven-year terms for directors who are not subject to removal for policy decisions indicate a higher degree of autonomy than executive branch appointees. This governance structure vests greater decision-making authority with the board while insulating it from political influence. As a result, Congressional and Presidential oversight is less direct since they are not involved in decisions such as the level of reserves needed.
4. While Sigma is permitted to borrow from the Treasury, such borrowing is limited. This means risks to the taxpayer are limited. Instead, Sigma is expected to maintain its operations and meet its liabilities with revenues received from sources outside of the federal government.

Evidence suggesting that Sigma may be a consolidation entity includes:

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

Administrative Assignment

Because each disclosure entity must be reported by at least one consolidation entity, management considered whether Sigma has been administratively assigned to the Department of Agriculture. Evidence suggesting administrative assignment to the Department of Agriculture includes that the secretary serves as an ex-officio member of the board.

As a result, management determined and the auditor concurred that the Department of Agriculture should disclose information regarding Sigma in its GPFRR. If Sigma is also administratively assigned to other component reporting entities, then those entities should also consider the need to disclose information in their GPFRRs.

Scholars University

(Not Included)

Assumed Facts and Circumstances

The Congress and the President chartered Scholars University as a small, private, independent, not-for-profit educational institution and legislation describes the mission of the university. The legislation also indicates that the university is not an instrumentality of the federal government and that the federal government does not assume any liabilities of the university.

Scholars University is governed by a 29-member board of trustees. The Secretary of Education is an ex-officio member of the board and the remaining members are elected by the board for three-year terms. The board controls and directs the university's affairs such as determining the university's tuition and fee structure, adding or removing colleges within the university, and establishing new research institutions.

To support its mission, Scholars University receives most of its revenue from student tuitions and fees, and private contributions. The university receives appropriations to support some of its academic programs. The university is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

Tentative Conclusions

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

The initial analysis is summarized below:

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

aggregate may reveal that Scholars is controlled. Such an analysis may be needed in practice.]

- Misleading to exclude – Scholars University is a small not-for-profit that is listed in the Budget solely as a program within the Department of Education. Management determined and the auditors concurred that it is both quantitatively and qualitatively immaterial. Also, there were no other facts and circumstances that would suggest that Scholars University should be included in the GPFFR. As a result, it would not be misleading to exclude.

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR.

Education Research Institute (ERI)

(Control based on Persuasive Indicator – Consolidation Entity)

Assumed Facts and Circumstances

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

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

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

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

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the U.S. Treasury to the ERI trust fund. An annual transfer to ERI is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” but is included in the Department of Education’s Congressional Budget Justification. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI may fund up to 25% of its annual budget through donations but may not use federal funds to solicit donations.

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

ERI must provide annually an audited financial report to the Department of Education and relevant Congressional committees.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that ERI should be included in the government-wide

GPFFR because the third inclusion principle (control) is met. A persuasive indicator of control exists because the federal government can unilaterally dissolve the organization and have access to its assets and responsibility for its liabilities.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, ERI should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that ERI is a consolidation entity.

Evidence suggesting that ERI is a consolidation entity includes:

1. It is primarily financed by taxpayers.
2. Taxpayers have assumed the risks associated with ERI's liabilities.
3. The purpose of ERI is to assist state and local officials by providing consultation services on a non-market basis.
4. ERI's annual budget is approved by the Department of Education and the Department also provides information related to ERI activities in its annual performance report and Congressional Budget Justification. These activities show that elected officials, acting with and through politically appointed officials, make decisions regarding ERI's budget.

Evidence suggesting that ERI is a disclosure entity includes:

1. A majority of the members of the board of directors is appointed by non-federal officials.
2. ERI is able to access donations to sustain some of its operations.

Administrative Assignment

The Department of Education should consider whether or not ERI is administratively assigned to it. Evidence that indicates ERI is administratively assigned includes Education's participation in ERI's budgetary process and inclusion of information regarding ERI in its own Congressional Budget Justification. Having considered the above information and other available evidence, the Department of Education determined and its auditor concurred that it should consolidate ERI's financial statements in its GPFFR.

Mediation Corporation

(Control based on Indicators in the Aggregate –Disclosure Entity)

Assumed Facts and Circumstances

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

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

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

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill the board member positions. A panel of local government officials participating in the network selects new members of the governing board from among the nominees. No more than seven members may be affiliated with the same political party. The members elect their chairperson from among the members. The President appoints the executive secretary and the Senate confirms the appointment. The executive secretary's term is fifteen years during which the President may only remove the appointee for cause.

Mediation is financed by an annual appropriation, interest earnings, and grants from any public or private grant-making organization. Grants must not finance more than 20 percent of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U.S. Government.

An annual appropriation is provided in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" for "Grants to the Mediation Corporation." The appropriation is made to the Department of Justice which transfers budget authority to Mediation. Mediation manages its cash balances similar to other not-for-profits and may retain any interest earned on unspent funds. In addition, it may apply for and receive grants from any grant making organization—public or private—subject to the 20 percent limitation.

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

Tentative Conclusions

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide GPFRR, management considered the remaining inclusion principles—ownership and control. It is unclear, based on the assumed facts and circumstances, whether Mediation is owned by the federal government. Therefore, management must consider the control indicators to determine if the third inclusion principle is met. None of the persuasive indicators of control are present based on the assumed facts and circumstances so considerable professional judgment is required to determine whether – in the aggregate – the indicators provide evidence of control. The indicators suggesting federal government control over Mediation include:

1. The federal government provides significant input regarding selection of the entity’s governing board members since a selection can only be made from among candidates identified by the President.
2. The President appoints a key executive – the executive secretary – and may remove him or her for cause.
3. Federal law restricts Mediation’s capacity to generate revenues since only appropriations, interest earned, and grants may be used. In addition, only 20 percent of its annual needs may be met through grants.
4. The U.S. Attorney General approves the annual budget.
5. Federal law requires annual audited financial reports.
6. Federal law directs Mediation to work through a network of government agencies to provide services.

Based on the assumed facts and circumstances and other considerations, and using professional judgment, management determined and the auditor concurred that Mediation should be included in the government-wide GPFRR.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Mediation should be reported as a disclosure entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Mediation is a disclosure entity.

Evidence suggesting that Mediation is a consolidation entity includes:

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

Evidence suggesting that Mediation is a disclosure entity includes:

1. Members of its governing body are selected by non-federal officials, serve longer terms than political appointees, must include members from different political parties, and may only be removed for cause. These conditions insulate the governing body from political influence.
2. Mediation has some access to non-federal funding through grants and its network of service providers is free to access non-federal funding for service delivery (subject to the 20 percent limitation).
3. Taxpayers have not assumed risks related to Mediation's liabilities.

Administrative Assignments

The Department of Justice should consider whether or not Mediation is administratively assigned to it. Evidence that indicates it is administratively assigned includes the Department of Justice's participation in Mediation's budgetary process. After considering the above and other factors, and using professional judgment, management at the Department of Justice determined and the auditor concurred that disclosures regarding Mediation should be presented in its GPPFR.

Bicycle America, Inc. (Scenario A)

(Not Included)

Assumed Facts and Circumstances

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

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

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

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but was part of a larger federal program within the Department of Transportation.

The funding legislation also established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions. In addition, the advisory committee will develop a plan to aid BA in returning to financial solvency and refinancing the short-term loan.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should not be included in the government-wide GPFRR. Specifically, BA is not listed in the Budget. Further, based on the available information and other considerations, management determined and the auditor concurred BA does not meet either the remaining ownership or control inclusion principle because BA continues to be owned by common shareholders and governed by the existing board of directors. The advisory committee offers advice to the Congress and does not have authority to direct BA to act. Management determined and auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude BA.

Bicycle America, Inc. (Scenario B)

(Ownership – Disclosure Entity (Intervention))

Assumed Facts and Circumstances

Same as above except that in addition to the actions in Scenario A above, the federal government received shares that carry 51 percent of the voting rights of BA common stock and the advisory committee will develop a plan to sell the shares.

Tentative Conclusions

Based on the changed assumptions and no information to the contrary, and using professional judgment, management determined and the auditor concurred that BA should be included in the government-wide GPFFR. When the federal government holds a majority ownership interest, albeit temporary, the owned entity should be included in the government-wide GPFFR.

Classification as a Consolidation or Disclosure Entity

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

Administrative Assignments

Department of Transportation was assigned responsibility for transferring funds to BA which indicates an administrative assignment. As a result, management determined and their auditor concurred that the department should disclose information regarding BA in its GPFFR. If BA is also administratively assigned to other component reporting entities, then those entities should also disclose information in their GPFFRs.

Chatham Laboratory

(Control based on Persuasive Indicator – Consolidation Entity (FFRDC))

Assumed Facts and Circumstances

Federal Department of ABC (ABC) organized Chatham Laboratory as a federally funded research and development center (FFRDC) to conduct specialized engineering research that supports ABC’s mission related to infrastructure and leads to improved services. As specified in the agreement, ABC provides the physical capital and ongoing funding for the FFRDC and sets research goals for Chatham.

ABC selects a contractor to operate Chatham and conduct research consistent with the established goals. ABC is not involved in the day-to-day operations of Chatham. ABC routinely evaluates Chatham’s performance and maintains a research office to review strategic plans, consider progress, and serve as a liaison to other federal institutions. ABC reports on Chatham’s efforts in its own performance reports.

Chatham operations are funded entirely through appropriations provided to ABC. ABC identifies Chatham in its Congressional Budget Justification but Chatham is not specifically identified in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” . Instead, amounts for Chatham are included in a larger research program which makes payments to the contractor consistent with the terms of the contract. Chatham’s contract operator must submit financial and performance reports to ABC periodically. All Chatham assets belong to the federal government and the results of Chatham research are the property of the federal government. In addition, ABC would be responsible for liabilities arising from use of the facilities to conduct research such as environmental cleanup liabilities. ABC is also responsible for employee benefits in the event Chatham operations are terminated.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Chatham should be included in the government-wide GPFFR. While contracting for the operation of Chatham, officials at ABC also act as the governing body by establishing the purpose and mission of Chatham. Further, ABC continues in this role through its involvement in Chatham’s strategic planning and monitoring of performance. Establishing the purpose and mission of an organization is a persuasive indicator that control exists.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Chatham should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Chatham is a consolidation entity.

Evidence suggesting that Chatham is a consolidation entity includes:

1. It is primarily financed by taxpayers.

2. Taxpayers have assumed the risks associated with Chatham's liabilities.
3. Chatham's annual budget is developed by ABC officials and information related to Chatham activities is provided in ABC's performance report and Congressional Budget Justification. This indicates that decision-making regarding the budget is exercised by elected officials through politically appointed officials and the budget process.

Evidence suggesting that Chatham is a disclosure entity includes:

1. Day-to-day operating decisions are made by a contractor.

After considering the above analysis and other factors, management determined and the auditor concurred that Chatham is a consolidation entity.

Administrative Assignment

ABC should consider whether or not Chatham is administratively assigned to it. In the example, evidence suggesting Chatham is administratively assigned includes ABC's role in Chatham's strategic planning, budgeting, and administration. Having considered the assumed facts and circumstances and other available evidence, the Department of ABC determined and its auditor concurred that it should consolidate Chatham's financial statements in its GPFFR.

Gotham Laboratory

(Not included – Economic Dependency Insufficient to Show Control)

Assumed Facts and Circumstances

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

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

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

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Gotham should not be included in the government-wide GPFFR. Gotham is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either majority ownership or control with risk of loss or expectation of benefit. Although Gotham appears to be economically dependent on the federal government, it ultimately retains discretion as to whether to accept funding or do business with the federal government. Despite the influence resulting from this dependency, the federal government does not govern Gotham's financial and operating policies. Further, management determined and auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude Gotham.

Andromeda Prime Power Systems

(Related party- GSE)

Assumed Facts and Circumstances

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

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

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

During the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands and APPS issued bonds to finance the initiative. The interest rate required by lenders indicates that the market assumes the federal government has implicitly guaranteed the payment of principal and interest. In its regulatory capacity, the federal government required APPS to establish a capital reserve and created a five-member APPS Advisory Board to monitor and advise Congress on APPS' fiscal operations.

APPS derives its revenues from fees charged to commercial entities and receives no ongoing federal support through the Budget.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be reported in the government-wide GPFFR as a consolidation entity or disclosure entity. APPS is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” and the federal government does not have a majority ownership interest in the company.

Further, management does a thorough assessment of control indicators and determines the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

However, based on the assumptions and other considerations, management determined and the auditor concurred that APPS should be disclosed as a related party. Related parties generally include GSEs not meeting the inclusion principles, especially those organizations for which the relationship is of such significance that it would be misleading to exclude information about it.

U.S. Museum (Scenario A)

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The U.S. Museum (the Museum) was organized to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship.

The Museum is an independent establishment of the federal government and is governed by a board of trustees, known as the Museum Council. The Council has 13 voting members and 2 nonvoting members. Of the voting members, 11 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 2 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

The Museum receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90 percent of operations and activities, with the remaining 10 percent coming from donor activities and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” All donations are considered to be available for use unless specifically restricted by the donor or by time. Furthermore, the Museum is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that the Museum should be included in the government-wide GPFFR because the Museum is listed in the Budget (the first inclusion principle). Further, the President and the Congress appoint the Museum Council which indicates the federal government controls the Museum (the third inclusion principle).

Classification as a Consolidation or Disclosure Entity

Because it is listed in the budget, the Museum is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that the Museum is a consolidation entity. As a consolidation entity, its financial statements should be consolidated in the government-wide GPFFR. The financial statements included should be for the entire entity and thus include the sources and uses for both the appropriations and the donated funds.

Administrative Assignment

Based on a review by management, no other component reporting entity has been assigned administrative responsibilities for the Museum. Therefore, the Museum is consolidated only directly into the government-wide GPFFR.

U.S. Museum (Scenario B)

(Control based on Persuasive Indicator –Disclosure Entity (Financially Independent Entity))

Assumed Facts and Circumstances

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

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

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

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

Tentative Conclusions

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide GPFFR because it is controlled by the federal government. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. An assessment of the remaining inclusion principles shows that the Museum is controlled by the federal government since a majority of the trustees are appointed by the President; a persuasive indicator of control.

Classification as a Consolidation or Disclosure Entity

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

below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Museum is a disclosure entity.

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

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

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

1. The Museum is a separate legal entity – a not-for-profit – and terms for a majority of Council members are ten-years. This insulates the organization from political influence. Further, day-to-day operations are governed by a board of directors whose members are not directly appointed by elected officials.
2. The Museum is intended to receive limited taxpayer support and market rates are charged for facility rentals.
3. The Museum is required to make explicit that any liability for deferred compensation of its employees is not guaranteed by the federal government. This indicates that limited risks are imposed on the taxpayer.

Disclosure entities should be presented by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

Administrative Assignment

Management determined and the auditor concurred the Department of Federal Museums should present the Museum as a disclosure entity in its GPFFR because the department is assigned administrative responsibility for the Museum based on appointment of its head to serve as chairperson of the Council.

Firefighters' Housing Limited Partnership

(Owned and Controlled - Consolidation Entity)

Assumed Facts and Circumstances

Agency 123 has been authorized to establish pre-positioned housing and equipment storage facilities on federal land to ensure immediate and efficient deployment of firefighting resources in response to wildfires in remote areas. The enabling legislation allows Agency 123 to enter into a wide range of financial agreements with private-sector participants to provide housing and equipment storage for the firefighters.

The agency and a private developer formed a limited partnership—Firefighters' Housing Limited Partnership (FHLP)—to develop, operate, maintain, and own all housing and storage units and facilities within a designated area for 25 years. Agency 123 leased land to FHLP under a 25-year ground lease. At the end of the 25-year ground lease, the agency has the option to renew the partnership for another 25 years. If it does not renew, all structures and land revert back to Agency 123, in accordance with the agency's residual ownership interest. During the 25-year ground lease, Agency 123 will provide an annual payment to FHLP from its appropriated funds for management services, use of the housing by Agency 123 employees during the fire season, and equipment storage year-round.

The private sector partner is guaranteed a minimum payment from FHLP and has no ownership interest in FHLP properties. The private sector partner also is entitled to a share of profits from non-fire season vacation rentals of the housing so long as the facilities meet established condition requirements. Profits not distributed to the private sector partner are retained by FHLP and can be used for capital improvements including development of new housing in adjacent parks under similar terms.

As part of the partnership agreement, Agency 123 has significant authority to determine the policies governing FHLP's activities and to affect day-to-day decisions such as design and construction. Any debt incurred by FHLP must be authorized by the agency. Furthermore, capital and operating budgets require agency approval and financial transactions are monitored on a monthly basis by the agency's contract administration office. The partnership is required to produce audited financial statements annually.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that FHLP should be included in the government-wide GPFRR. A substantial ownership interest is present via the agency's continuing ownership interest. In addition, several control indicators are met as summarized in the following analysis of available information.

1. Agency 123 may be able to direct the partnership regarding the establishment and subsequent revision of financial and operating policies through its review and approval of operating budgets, designs, and condition of the facilities. If so, this would be a persuasive indicator of control. Management should weigh the impact of its role in directing the FHLP's financial and operating policies and consider how much discretion falls to the private sector partner.

2. Other indicators in the aggregate may indicate control. Agency 123 has significant authority to:
 - a. direct the ongoing use of assets.
 - b. approve the budgets and business plans for FHLP.
 - c. require audits.
 - d. limit borrowing and investment by FHLP.

Classification as a Consolidation or Disclosure Entity

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, FHLP should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that FHLP is a consolidation entity.

Evidence suggesting that FHLP is a consolidation entity includes the following:

1. FHLP provides housing to firefighters as its primary function on a non-market basis.
2. It is financed by taxpayer funds supplemented by any retained profits from non-fire season rentals.
3. Decisions are made by organizational leaders at Agency 123 who are appointed by the President and confirmed by the Senate.
4. Funds transferred to FHLP will be approved through the usual budgetary process so that FHLP funding will be included in the budget approved by the Congress and the President.

Evidence suggesting that FHLP is a disclosure entity includes the following:

1. FHLP has a legal identity separate from Agency 123.
2. FHLP is authorized to provide vacation housing services to customers on a market basis and use the proceeds to first compensate the private sector partner and then reduce the cost of firefighter housing borne by the taxpayer.

As a consolidation entity, FHLP's financial statements should be consolidated by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred Agency 123 should consolidate FHLP's financial statements because it is assigned administrative responsibility for FHLP based on its inclusion of FHLP funding in its budget request and its coordination and monitoring of FHLP's plans and performance.

The Blue Mountain Observatory

(Control based on Indicators in the Aggregate – Disclosure Entity (FFRDC))

Assumed Facts and Circumstances

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

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

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

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

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

In the most recent fiscal year, BMO received \$100 million in funding from Agency XYZ through its cooperative agreement with UC. Agency XYZ proposed the \$100 million in funding in its Congressional Budget Justification and described how the funds would be used to support the

research programs at BMO. In administering the funds provided by Agency XYZ for BMO programs, UC may:

1. expend funds to meet ongoing operational needs.
2. make annual cash contributions to employee benefits programs (accrued leave and pension plans).
3. make annual payments due under long-term leases.
4. construct or purchase new assets so long as all resulting property is titled to BMO.

In the event the cooperative agreement with UC is terminated, Agency XYZ would assume management responsibility for the facility. Further, Agency XYZ would seek appropriations for termination expenses such as post-retirement benefit liabilities for BMO employees. However, Agency XYZ would be obligated to pay termination benefits only if funds were appropriated for that purpose.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BMO should be included in the government-wide GPFRR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” so other inclusion principles must be considered. BMO facilities are owned by the federal government and new assets are titled to the federal government. With respect to the control inclusion principle, Agency XYZ establishes the fundamental purpose and mission of BMO through its participation in strategic planning and the overall effort to ensure BMO goals are consistent with Agency XYZ research goals. This effort includes annual actions to approve BMO’s annual program plan and operating budget. These actions are persuasive indicators of control.

Classification as a Consolidation or Disclosure Entity

Evidence suggesting that BMO is a consolidation entity includes the following:

1. BMO provides, as its primary function, research facilities and leadership to university members of UC on a non-market basis. It is financed by taxpayer funds supplemented by non-government donors.
2. Key operational decisions are made by organizational leaders at Agency XYZ who are appointed by the President and confirmed by the Senate.
3. Funds transferred to BMO will be approved through the usual budgetary process so that use of taxpayer funds to support BMO is ultimately decided by the Congress and the President.

Evidence suggesting that BMO is a disclosure entity includes the following:

1. BMO has a legal identity separate from Agency XYZ.

2. The governance structure ensures that universities have substantial input regarding BMO's strategic plans and annual program plan. The significant involvement of non-governmental entities lessens political influence.
3. BMO's liabilities are not obligations of the U.S. government.
4. BMO is authorized to accept donations from non-government entities.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO should be reported as a disclosure entity. As a disclosure entity, BMO should be presented by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred that Agency XYZ should disclose information about BMO because it is assigned administrative responsibility for BMO based on its inclusion of BMO funding in its budget request and its coordination and monitoring of BMO's plans and performance.

Table 1: Summary Application of Proposed Standard

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
ABC Department	Yes				Yes	Entities listed in the Budget are presumed to be consolidation entities.	
Epsilon Corporation	Yes				Yes	Entities listed in the Budget are presumed to be consolidation entities.	
Sigma Association	No	No	Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate and they established its fundamental purpose and mission through legislation.		Yes		Financially independent entity
Scholars University	Yes but as a non-federal organization receiving federal financial assistance.	No	No. Scholars' board of trustees elects its respective board members. Scholars' board of trustees primarily directs the university's affairs and the university seeks sources of revenue to operate virtually in a self-sustaining manner.	Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No		
Education Research Institute	No	No	Yes, the federal government can unilaterally dissolve ERI and have access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is primarily funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and taxpayers assume risk.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
Mediation Corporation	Yes but as a non-federal organization receiving federal financial assistance. Therefore, must assess against other principles.	No	Yes. Considering the control indicators in the aggregate, the federal government controls Mediation. It provides significant input on the selection of governing board members, appoints a key executive, limits Mediation's capacity to generate revenue, approves the annual budget, requires audited financial statements, and directs Mediation to work with other governments.		Yes		Mediation's governing body is insulated from political influence and risks are not assumed by the taxpayer.
Bicycle America, Inc. (Scenario A)	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment	No, Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No. Advisory committee offers advice but does not have the authority to direct BA to act.		
Bicycle America, Inc. (Scenario B)	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
Chatham Laboratory (FFRDC)	No	The assets and research results are owned.	Yes. The federal government establishes the purpose and mission of Chatham.		Yes	Yes, Chatham is primarily funded by taxpayers, and governance rests with the President and Congress.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
Gotham Laboratory	No	No	No	No, Management and auditor agreement based on facts and circumstances it was not material to exclude.	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
Andromeda Prime Power Systems (GSE)	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No, Management determined and the auditor concurred APPS should be disclosed as a related party .		
U.S. Museum (Scenario A)	Yes				Yes	Yes. The Museum is in the budget and primarily funded by taxpayers and governance rests with the President and Congress.	
U.S. Museum (Scenario B)	Yes but as a non-federal organization receiving federal financial assistance	No	Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent entity.
Firefighters' Housing	No	Ownership of property is	Yes. Agency 123 has significant authority to direct the limited		Yes	Yes. Taxpayers fund the housing and risks	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ENTITY	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ENTITY INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ENTITY (DISCLOSED)
Limited Partnership		retained.	partnership's activities and to affect day-to-day activities such as in design and construction and the partnership's purpose is to carryout federal missions and objectives.			have been assumed	
Blue Mountain Observatory (FFRDC)	No	Property is owned by the federal government.	Yes. The federal government establishes the purpose and mission of BMO.		Yes		BMO is a separate legal entity and UC plays a significant role in its governance without political influence.

APPENDIX D: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
CRE	Component reporting entity
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OAI	Other Accompanying Information
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

APPENDIX E: TASK FORCE MEMBERS

Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

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APPENDIX F: GLOSSARY

Component Reporting Entity “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.⁶¹ Examples of component reporting entities include entities such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Conservatorship A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company’s directors, officers, and shareholders are transferred to the designated Conservator.⁶²

Control with risk of loss or expectation of benefit Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶³

Disclosures Information in notes or narrative regarded as an integral part of the basic financial statement.

Federally Funded Research and Development Center Federally Funded Research and Development Center (FFRDC) is a government-funded entity that has a long-term contractual relationship with one or more federal agencies.⁶⁴ FFRDCs can be privately owned or government-owned, and they serve to meet the long-term research and development needs of federal agencies that could not otherwise be met as effectively in-house or through existing contractors. 49 Fed. Reg. at 14,464; 48 C.F.R. § 35.017(a). FFRDCs are established either specifically in statute or under the statutory authority of agencies to enter into contracts, which can be inherent or specific authority, and are used to perform research and development and related tasks.

General Purpose Federal Financial Reports General purpose federal financial reports (GPFFRs) is used throughout this Statement as a generic term to refer to the report that contains the reporting entity’s financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government-wide reporting entity is known as the consolidated financial report of the U.S. Government (CFR) and for component reporting entities it is usually included in the performance and accountability report, the agency financial report, or the annual management report.

⁶¹ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶² Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

⁶³ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁶⁴ The OFPP and FAR policies for FFRDCs apply to executive agencies, which includes “an executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. § 9101.” 48 C.F.R. § 2.101; see also 5 U.S.C. § 403.

Government Sponsored Enterprise Government Sponsored Enterprise (GSE) is created by Congress with its particular attributes defined in its enabling legislation and charter. Despite this diversity, there are at least four readily observable characteristics of GSEs: (1) private sector ownership, (2) limited competition, (3) activities limited by congressional charter, and (4) chartered privileges that create an inferred federal guarantee of obligations.⁶⁵

Receivership Receivership is the legal procedure for winding down the affairs of an insolvent institution.⁶⁶

Related Party Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

Reporting Entity Reporting entities are entities that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁶⁷ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
- c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.

⁶⁵ CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

⁶⁶ *Managing the Crisis: The FDIC and RTC Experience*, Appendix B - List of Abbreviations and Glossary of Terms; available online at <http://www.fdic.gov/bank/historical/managing/>; last accessed October 11, 2012.

⁶⁷ SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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Federal Accounting Standards Advisory Board

Date: November 27, 2012
To: Members of the Board
From: Wendy M. Payne, Executive Director
Subject: Ballot for Exposure Draft, *Reporting Entity*

The following is a ballot for the Exposure Draft on the standard, *Reporting Entity*. Please enter your name in the space provided below and indicate your approval or disapproval. Your ballot may be submitted by fax to 202 512-7366. If you wish to submit your ballot via e-mail, please e-mail your response to me at paynew@fasab.gov.

Ballots are due by December 12, 2012. If you wish to express an alternative view, please notify staff immediately and provide your alternative view as soon as possible but no later than December 18, 2012. **When staff receives five affirmative votes, we will publish the exposure draft unless a member has notified us that he or she is preparing an alternative view.**

Board Member: _____ Date _____

_____ I approve the subject Exposure Draft

_____ I do not approve the subject Exposure Draft

Statement of Federal Financial Accounting Concepts 2: Entity and Display

Status

Issued	April 20, 1995
Interpretations and Technical Releases	
Affects	No other statement.
Affected by	<ul style="list-style-type: none">• Paragraphs 90-102, SFFAS 7, which affect paragraphs 64, 74, 105 of this statement, and add Appendix I-G.• SFFAS 27, paragraph 38, amends footnote 3.• SFFAS 31, paragraph 35, amends paragraphs 84 and 102.• SFFAS 6, paragraphs 6 through 22, amend par. 2, 3, 55, 69, 72-74, 76-79, 81, and 108 as well as footnotes 11, 12, 12a, 14, and 17.

Summary

The summary will be updated once the edits are complete.

~~This concepts statement describes the basis for defining a reporting entity for the general purpose financial reporting performed by the Federal government and/or entities thereof. For any entity to be a reporting entity it should meet all of the following criteria:~~

- ~~• There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.~~
- ~~• The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.~~
- ~~• There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.~~

~~Criteria for including components in a reporting entity are also provided. A conclusive criterion establishes that any organization, program, or budget account (including off budget accounts and government corporations) appearing in the Federal budget section currently titled "Federal Programs by Agency and Account" should be considered part of the Federal Government as well as part of the organization with which it appears. Indicative criteria are presented that should be considered when an organization is not listed in the "Federal Programs by Agency and Account" yet the general purpose financial statements might be misleading or incomplete if the organization were not included therein.~~

~~This concepts statement also describes the items that should be included in Federal financial reports and presents illustrative statements depicting desirable displays of financial information. The items include:~~

- ~~• management discussion and analysis;~~
- ~~• balance sheet;~~

-
- ~~statement of net costs;~~
 - ~~statement of changes in net position;~~
 - ~~statement of custodial activities, when appropriate;~~
 - ~~statement of budgetary resources;~~
 - ~~statement of program performance measures;~~
 - ~~accompanying footnotes;~~
 - ~~required supplemental information pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate; and~~
 - ~~other supplemental financial and management information, when appropriate.~~

~~SFFAS 7, *Accounting for Revenue and Other Financing Sources*, amends the above list to include “statement of financing.” SFFAS 7 also presents an illustrative statement of financing to amend the displays shown in Appendix A of SFFAC 2.~~

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Introduction

Replaces par. 2

2. The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

1. A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.
2. ~~The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).~~
3. ~~A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate accounting standards for the federal government. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. This Statement also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements.¹~~

¹OMB specifies the form and content of agency and governmentwide financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (title 31, U.S. Code, section 3515(d) and section 331(e)(1)) through periodic issuance of OMB Bulletins. OMB intends to base the form and content on the concepts contained in this statement.

- ~~4. This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.~~
- ~~5. The specification of reporting entities intends to be suitable for all organizations within the Executive branch of the Federal Government, including the Departments, independent agencies,² commissions, and corporations. FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. However, the concepts recommended in this statement would be appropriate for those branches.~~
6. The concepts, as defined in this statement, are intended primarily for the general purpose financial reporting performed by Federal entities. This is the financial reporting that these entities would undertake to help meet the objectives defined in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting." These objectives are as follows:
 - **Budgetary integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
 - **Operating performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
 - **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

²"Independent agencies" is a term used to distinguish agencies that are independent of a Cabinet department from the agencies that are part of the Cabinet departments. Independent agencies report directly to the President and are part of the U.S. Government.

1. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFRR:

6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established in SFFAC 1, it is clear accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

- **Systems and control.** Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure proper execution of transactions, safeguard assets, and support performance measurement.

~~7. The concepts are also intended, as FASAB's mission statement requires, to help in meeting the financial and budgetary information needs of executive agencies and Congressional oversight groups, and to strengthen the conceptual basis and consistency of Federal accounting data.~~

8. The entity and display concepts presented in this statement do not preclude the specification of ad hoc or temporary reporting entities to meet special reporting needs of users of Federal agencies' financial information. Nor do they preclude a reporting entity from preparing special purpose financial reports to meet the specific needs of persons in the reporting entity or in response to requests from persons outside the entity for certain financial information; or from preparing a so-called "popular report," which provides a simplified, highly readable, easily understandable description of a reporting entity's finances. These statements would not necessarily purport to be presented in accordance with generally accepted accounting principles.

Reasons For Defining Reporting Entities

9. The most basic reason for having an explicit understanding of what the reporting entity entails is to ensure that the users of the entity's financial reports are provided with all the information that is relevant to the reporting entity, subject to cost and time constraints. Clearly defining the boundaries of the reporting entity provides the users with a clear understanding of what the reporting entity encompasses. It helps to establish what information is relevant to the financial statements and what information is not.

10. Other reasons for having an explicit understanding of what the reporting entity entails are to:

- ~~ensure that for the aggregation of information at each reporting level, no entity is omitted, and to provide for consolidations and/or combinations of information from reporting units at the same level, as appropriate;~~ **replaces first bullet**

• ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

- assist in making comparisons among comparable reporting entities by reducing the possibility of unintended or arbitrary exclusions or inclusions of entities;
- assist in making comparisons among alternative ways to provide similar services or products;
- be able to distribute costs properly and fully and to properly attribute the responsibility for assets and liabilities; and
- facilitate evaluating performance, responsibility, and control, especially where one agency is the provider or recipient of services attributable to or financed by another agency.

Structure Of The Federal Government

11. The Federal Government is an extremely complex organization composed of many different components. For accounting and reporting purposes, it may be viewed from at least three perspectives. However, the nature of each type of component and the relationships among the components and perspectives are not always consistent.

Organization Perspective

12. The first type of perspective is the **organization** perspective. The Federal Government is composed of organizations that manage resources and are responsible for operations, i.e., delivering services. These include the major Departments and independent agencies, which are generally divided into suborganizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, services, and corporations. Many of these are further divided into even smaller suborganizations. On the other hand, there are small agencies for which division into smaller units is generally not considered appropriate.

Budget Perspective

13. From another perspective, the government is composed of accounts presented in the budget, hereinafter referred to as **budget accounts**. Budget accounts are composed of expenditure (appropriations or fund) accounts and receipt (including offsetting receipt) accounts. The size and scope of these accounts varies according to Congressional preference. They can vary from very small accounts, which are useful for constraining management, to very large accounts, which can be used to finance many activities.

14. Budget accounts are not the same as Treasury accounts. The latter are accounts established in the Treasury to, among other purposes, record the appropriations and other budgetary resources provided by statutes and the transactions affecting those accounts. For the most part, budget accounts are aggregations of Treasury accounts. Also, Treasury accounts include deposit accounts as well as budget accounts.
15. Nor are budget accounts the same as the uniform ledger accounts established by the U.S. Government Standard General Ledger (SGL). SGL accounts record specific homogeneous types of transactions and balances that aggregate to specific classifications on the financial statements. They have been established so that agencies can establish control over their financial transactions and balances, meet the basic financial reporting requirements, and integrate budgetary and financial accounting in the same general ledger.
16. A budget account may coincide with an organization or one or more of its suborganizations. Other times, several budget accounts need to be aggregated to constitute an organization or sub-organization.
17. Budget accounts are classified as federal funds or trust funds. Any account that is designated by the laws governing the federal budget as being a trust fund is so classified. Federal funds comprise the larger group and include all transactions not classified by law as trust funds. Three components make up federal funds: the general fund, special funds, and revolving funds. The definition of each of these categories can be found in the OMB circular A-11 and the GAO [Glossary of Terms Used in the Federal Budget Process](#).
18. Care must be taken in determining the nature of all trust funds and their relationship to the entity responsible for them. A few trust funds are truly fiduciary in nature. Most trust funds included in the budget are not of a fiduciary nature and are used in federal financing in a way that differs from the common understanding of trust funds outside the federal government. In many ways, these trust funds can be similar to revolving or special funds in that their spending is financed by earmarked collections.
19. In customary usage, the term “trust fund” refers to money belonging to one party held “in trust” by another party operating as a fiduciary. The money in a trust fund must be used in accordance with the trust’s terms, which the trustee cannot unilaterally modify, and is maintained

separately and not commingled with the trustee's own funds. This is not the case for most federal trust funds that are included in the budget—the fiduciary relationship usually does not exist. The beneficiaries do not own the funds and the terms in the law that created the trust fund can be unilaterally altered by Congress.

20. Special funds and trust funds, except trust revolving funds, are aggregates of budget accounts. They normally consist of one or more receipt accounts and one or more expenditure accounts. Among the trust funds, social insurance programs (such as social security and unemployment compensation) have the largest amount of funds and federal employee programs (such as retirement and health benefits) the second largest. Together they make up about 90 percent of all trust fund receipts. Other trust funds include excise tax financed programs for highway construction, airports and airway operations, and other public works. Like other budget accounts, trust funds are usually the responsibility of a single organization, although sometimes they are the responsibility of more than one organization.
21. Budget accounts are also categorized, as mandated by law and defined by OMB, into functions and subfunctions that represent national needs of continuing national importance and substantial expenditures of resources. Examples of functions are national defense and health.

Program Perspective

22. From a third perspective, the government is composed of **programs and activities**, i.e., the services the organizations provide and the specific lines of work they perform. Each program and activity is responsible for producing certain outputs in order to achieve desired outcomes.
23. There is no firm definition for the term “program;” it varies in the eye of the beholder. For example, the Highway program could relate to the entire Federal highway program, the program to build interstate highways (in contrast to city streets, secondary roads, etc.), or a program to build a highway between two specific points. Moreover, in accordance with the sequester provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the House and Senate Appropriations Subcommittees annually define, in the Committee Reports, the meaning of “Programs, Projects, and Activities” as they relate to each of the Appropriations Acts.

24. The term “program” is also often used interchangeably with the terms “function” and “sub-function” (see paragraph 21). Generally, however, the term “function” would be used only for the functions defined in the budget. Otherwise, the term “program” would be used.

Intertwining Of The Perspectives

25. The programs are administered by the organizations and financed by the budget accounts. In a few instances, there is a one-to-one relationship among the three perspectives. A single budget account finances a single program and organization. Thus, the program is carried out only by the single organization and the organization performs only one program.

26. However, most programs are financed by more than one budget account, some of which might not be under the control of the organizational unit administering the program. Some programs are even administered by more than one organization. Likewise, a single organization or budget account could be responsible for several programs. In some instances, a program could also be considered an organizational unit, e.g., the Center for Disease Control and Prevention.

27. Furthermore, some of the support necessary to perform a program is frequently provided by other organizations and/or financed by other budget accounts. Examples are the computer support for a program that is obtained from a central unit within the department, or retirement health costs for a program’s current and former employees.

28. This complex situation is the result of the evolution of Federal organizations, programs, and budgetary structures over many years. As Federal missions and programs have expanded and changed, new departments have been created, new organizations have been added to existing departments, and new duties have been assigned to existing organizations on the basis of various considerations. Similarly, the budget structure has evolved in response to the needs of the Congress; its committees and subcommittees; and various initiatives by the President, program managers, and interest groups.

Identifying The Reporting Entities For General Purpose Financial Reporting

29. As stated, reporting entities are entities that issue general purpose financial statements to communicate financial and related information about the entity. For any entity to be a reporting entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.
- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
 - The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
 - There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.
30. Budget accounts, in and of themselves, do not meet the criteria in the preceding paragraph and, therefore, would not be considered a reporting entity for the purposes of issuing general purpose financial statements. Also, the size and scope of the budget accounts across all government agencies lack sufficient consistency for them to be universally considered as the reporting entity. Similarly, programs generally do not meet the criteria in paragraph 29 and, therefore, would not be a considered a reporting entity that prepares general purpose financial statements.
31. On the other hand, organizations, and particularly larger organizations, meet the criteria in paragraph 29. While the occasional overlap of programs and budget accounts among more than one organizational unit could complicate financial reporting, the association of data with the responsibility centers, revenue centers, profit centers, cost centers, etc. which managers typically use for organizing and operating permit the following:
- aggregating information for not only the organization (and suborganizations), but also for one or more of the programs performed by the organization, and one or more of the budget accounts for which the organization is responsible, and

- the subsequent arraying of the information not only by organization, but also by sub-organization, program, and/or budget accounts.
32. This approach to defining the appropriate reporting entities in the Federal Government supports establishment of accountability in the organizations (and suborganizations) while still enabling them to provide information pertaining to their programs.
 33. Although a reporting entity might not control all the budget accounts used to finance one or more of the programs it administers, any revenues attributable to or costs incurred on behalf of the programs it administers should be associated with that reporting entity. This notion holds true regardless of whether the reporting entity maintains personnel on a payroll.
 34. The departments and major independent agencies are organizational units and therefore would be the primary reporting entities. However, in many instances, financial statements that present aggregations of information into suborganization entities, i.e., bureaus, administrations, or agencies, may be more useful than statements that present only aggregations into organizational entities. The former can provide a better understanding of the financial results and status of the many individual suborganizations and programs constituting a department or major independent agency. They can reveal instances where programs are carried out by several suborganizations within the department or major independent agency.
 35. Similar to other budget accounts, trust funds, special funds, and revolving funds are usually administered by a single organization. For financial reporting purposes, the organization would be the reporting entity; the trust fund or revolving fund would be a component of the organization that administers the fund in the same manner that a suborganization or other type of budget account is a component of the organization. This would not preclude separate reporting for the trust fund, special fund, or revolving fund by the managing organization, nor would it preclude disclosure of trust fund, special fund, or revolving

fund information within the organization's report when there is sufficient interest.³

- 36. Likewise, some programs are coterminous, i.e., share the same boundaries, with an organization or sub-organization, while other programs—such as student loan programs—are the component for which resources are deployed, are responsible for achieving objectives, and/or are of great interest to outsiders. In both instances, the financial operations and results of the program might warrant highlighting or even separate reporting by the organization or suborganization which manages the program.
- 37. Financial statements for organizationally-based reporting entities may be audited and issued to external parties, unaudited and used for internal management purposes, or, perhaps to be more relevant and meaningful, combined with financial statements from other organizationally-based reporting entities.

Replaces par. 38



38. The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

~~38. The ultimate aggregation of entities is into the entire Federal Government which, in reality, is the only independent economic entity—although some would say the entire country is the ultimate economic entity. The Federal Government entity would encompass all of the resources and responsibilities existing within the component entities, whether they are part of the Executive, Legislative, or Judicial branches (although, as noted in paragraph 5, FASAB's recommendations pertain only to the Executive Branch). The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government (see paragraphs 39 through 50) are such that their~~

³For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenues would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund will report all assets, liabilities, revenues, and expense of the fund, notwithstanding the fact that another entity has custodial responsibility for the assets. In the case of multiple responsible entities, if the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of SFFAS 27, *Identifying and Reporting Earmarked Funds*. If separate portions cannot be identified, the component entity with program management responsibility should report the fund.

exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

Criteria For Including Components In A Reporting Entity

39. Regardless of whether a reporting entity is the U.S. Federal Government, or an organization, suborganization, or program, there can be uncertainty as to what should be included and inconsistency as to what is included in the reporting entity. The identification and application of specified criteria can reduce this uncertainty and inconsistency.
40. The Governmental Accounting Standards Board (GASB) has established criteria for what would be included in a state or local government reporting entity. These criteria relate to financial accountability, which includes appointment of a voting majority of the organization's governing board, together with imposition of will, and financial benefit to or burden on a primary government. These criteria, while in part relevant, must be tailored to the Federal Government environment. First, there are not as many different types of entities in the Federal Government as there are in state and local governments. Second, the Congress and others with oversight authority frequently establish explicit rules for what to include as part of a Federal reporting entity. Finally, as indicated, with the exception of the Federal Government as a whole, all the reporting units are components of a larger entity, namely the Federal Government, rather than independent economic entities.

Conclusive Criterion

41. There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a **conclusive criterion**, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.
42. Appearance in the Federal budget section currently entitled "Federal Programs by Agency and Account" is a conclusive criterion. Any organization, program, or budget account, including off-budget accounts and government corporations, included in that section should be considered part of the U.S. Federal Government, as well as part of the organization with which it appears. This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in

~~the financial statements of the organization or program that expends the appropriation.~~

~~Indicative Criteria~~

- ~~43. There are instances when, for political or other reasons, an organization (including a government corporation), program, or account is not listed in the “Federal Programs by Agency and Account,” yet the general purpose financial statements would be misleading or incomplete in regard to the objectives for Federal financial reporting if the organization, program, or account were not included therein. These organizations, programs, or accounts would normally be considered to be operating at the “margin” of what would be considered a governmental function in contrast to providing a more basic governmental function. Thus, in addition to the conclusive criterion, there are several **indicative criteria** that should be considered in the aggregate for defining a financial reporting entity in the Federal Government. No single indicative criterion is a conclusive criterion in the manner that appearance in the “Federal Programs by Agency and Account” section of the budget is. Nor can weights be assigned to the indicative criteria. Thus, while the indicative criteria are presented in descending order of importance, judgment must be based on a consideration of all of the indicative criteria.~~
- ~~44. The indicative criteria for determining whether an organization not listed in the “Federal Programs by Agency and Account” section of the budget is nevertheless part of a financial reporting entity are as follows:~~
- ~~• It exercises any sovereign power of the government to carry out Federal functions. Evidence of sovereign powers are the power to collect compulsory payments, e.g., taxes, fines, or other compulsory assessments; use police powers; conduct negotiations involving the interests of the United States with other nations; or borrow funds for Government use.~~
 - ~~• It is owned by the Federal Government, particularly if the ownership is of the organization and not just the property. Ownership is also established by considering who is at risk if the organization fails, or identifying for whom the organization’s employees work.~~
 - ~~• It is subject to the direct or continuing administrative control of the reporting entity, as revealed by such features as (1) the ability to select or remove the governing authority or the ability to designate management, particularly if there is to be a significant~~

~~continuing relationship with the governing authority or management with respect to carrying out important public functions (in contrast to selections and designations in which there is little continuing communication with, or accountability to, the appointing official); (2) authority to review and modify or approve budget requests, budgetary adjustments, or amendments or rate or fee changes; (3) ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations; (4) authority to sign contracts as the contracting authority; (5) approval of hiring, reassignment, and removal of key personnel; (6) title to, ability to transfer title to, and/or exercise control over facilities and property; and (7) right to require audits that do more than just support the granting of contracts. (While many of these criteria exist in a client-contractor relationship, it is not necessarily intended that an entity's contractor be considered as part of the reporting entity.)~~

- ~~• It carries out Federal missions and objectives.~~
 - ~~• It determines the outcome or disposition of matters affecting the recipients of services that the Federal Government provides.~~
 - ~~• It has a fiduciary relationship with a reporting entity, as indicated by such factors as the ability of a reporting entity to commit the other entity financially or control the collection and disbursement of funds; and other manifestations of financial interdependency, such as a reporting entity's responsibility for financing deficits, entitlement to surpluses (although not necessarily the assets acquired from failed units), or the guarantee of or "moral responsibility" for debt or other obligations.~~
45. ~~The entity or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics is more than fleeting.~~
46. ~~In applying the indicative criteria, the materiality of the entities and their relationship with one another should be considered. Materiality should not be measured solely in dollars. Potential embarrassment to any of the entities' stakeholders should also be considered. Thus, a bias toward expansiveness and comprehensiveness would be justified, particularly if it could contribute to maintenance of fiscal control.⁴~~

⁴Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.

Federal Reserve System

47. ~~In establishing and monitoring monetary policy, the Federal Reserve System, i.e., the Board of Governors of the Federal Reserve System and the Federal Reserve Banks, could be considered as functioning consistent with the indicative criteria presented in paragraph 44. However, in the United States, the organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity. Payments made to or collections received from the Federal Reserve System would be reported in the financial statements of the Federal Government. Certain other disclosures might also be appropriate in the financial statement for the entire government.~~

Government Sponsored Enterprises

48. ~~There are also several Federally chartered but privately owned and operated financial institutions that have been established as financial intermediaries to facilitate the flow of investment funds to specific segments of the private sector. These entities are called government sponsored enterprises (GSE). Examples are the Federal National Mortgage Association, the Farm Credit Banks, and the Federal Home Loan Banks. By law, each of these GSEs is subject to oversight from a specific Federal agency. However, they are not included in the Federal budget section entitled "Federal Programs by Agency and Account." Nor, as currently constituted, do they function in a manner consistent with the indicative criteria presented in paragraph 44. Thus they would not be considered part of the government-wide reporting entity nor the reporting entity to which they have been assigned for oversight.~~
49. ~~On the other hand, there are "political expectations" associated with the GSEs, the most significant of which is an expectation that legislation would be enacted to support a GSE experiencing severe financial difficulties. (Political expectations are different than "moral obligations" established by many states. There is no statutory authority that defines whether and how a political expectation would be met. With a moral obligation, the manner in which it may be met is usually explicitly defined in statute.) Therefore, agencies assigned oversight responsibility for a GSE(s) would need to consider making disclosures of the government's relationship with the GSE(s) and~~

~~other information that would provide an understanding of the possibility of a contingent liability.⁵~~

Bailout Entities

~~50. The Federal Government occasionally bails out, i.e., guarantees or pays debt, for a privately owned entity whose failure could have an adverse impact on the nation's economy, commerce, national security, etc. As a condition of the bail out, the Federal Government frequently obtains rights similar to the authorities associated with the indicative criteria presented in paragraph 44. The existence of these rights does not make the bailed out entity part of the Federal Government reporting entity or any of the other reporting entities that are part of the Federal Government. Disclosure of the relationship(s) with the bailed out entity(ies) and any actual or potential material costs or liabilities would be appropriate.~~

Other Aspects Concerning The Completeness Of The Entity

Component Reporting

Identifying the organizations to include in

more appropriately established in standards

~~51. The application of specified criteria to delineate the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within the parameters explained in paragraphs 52 and 53, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of~~

⁵The term government sponsored enterprise is also sometimes used in a broader manner to encompass other entities established by the Federal Government to further a public policy and that are also not included in the budget section "Federal Programs by Agency and Account." Examples are the Financing Corporation, Resolution Funding Corporation, Amtrak, and even, on occasion, the American National Red Cross. These entities have varied characteristics and different types of relationships to the Federal Government, and therefore, in some cases, may be included with the above mentioned GSEs in sections or tables of Federal budget documents. These entities need to be judged individually with respect to the indicative criteria presented in paragraph 39 in order to determine whether they should be considered part of a Federal reporting entity.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct entities are referred to collectively as “disclosure entities.”

53B. Disclosure entities may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure entities’ relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation and disclosure entities should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure entities. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure entities are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure entities often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all entities likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure entities.

53D. Maintaining a distinction between consolidation entities and disclosure entities may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure entities. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure entities.

53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of entities comprising a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

~~52. A process in which the reporting entity is billed and pays for the amounts attributable to its activities is normally the most desirable approach for recording and reporting these amounts. However, when this type of direct debiting or crediting is not done, the decision as to whether to capture and report attributable amounts would be based on such criteria as the magnitude of the attributable amounts, the decision usefulness of the information to its likely users, the costs of capturing the data, whether a decision would be made differently as a result of having the information, and whether the information would have a policy impact.⁶~~

~~53. It might be appropriate to consider the interest expense inherent in devoting a sum of capital to an organization or program as part of the total costs incurred in operating the organization or performing the program. This principle has already been adopted for the accounting for loans and loan guarantees, whereby a loan program is charged for the cost of capital provided by the U.S. Treasury.⁷~~

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity’s resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements,

~~⁶The Board is developing a Statement of Managerial Cost Accounting Concepts and Standards. This document, when finalized, will address recognition of these amounts.~~

~~⁷The Board has decided to undertake a project addressing the types of capital for which it might be appropriate for a reporting entity to disclose the costs, the reasons thereof, and the manner in which to determine and report these costs. A determination of the appropriateness of considering interest expense as part of the costs incurred by an organization or program will be made by that project.~~

either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.

- 55a. To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always audited by Inspectors General, independent accounting firms, or the Government Accountability Office. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS). When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for fair presentation in conformity with GAAP. However, RSI and OAI are unaudited, but subject to certain procedures specified by GAGAS for RSI and OAI, respectively. To assist users in analyzing the different types of information within financial reports, these differences must be conveyed and can be accomplished in a variety of ways. The traditional approach is to separate the categories of information. However, the categories may be commingled if the RSI and OAI are clearly labeled as "unaudited" or distinguished in a manner that informs the reader of the level of assurance provided.
- 55b. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to 73G.
56. In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each of the reporting objectives can be met to a certain

degree by the statements prepared by or for one type of reporting entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. For example, the objective of budgetary integrity can be best met with the program and financing schedules prepared for individual budget accounts. The objective of operating performance can be best met with financial statements from organizations/suborganizations and programs (although financial statements at this level can also help readers evaluate the reporting entity's budgetary integrity). The objective of stewardship can be best met with a financial statement for the entire government. Meeting the financial reporting objectives in their totality requires financial statements from all of the types of reporting entities.

Stock Statements

57. The financial reporting objectives are also met with different types of financial statements. A financial statement that presents financial information for an entity as of a particular point in time, however the information is measured, i.e., budgetary, cash, or accrual, is often characterized as a stock statement. An example of a stock statement is a **balance sheet**. It presents the total balances of assets, liabilities, and net position of an organization as of a specific time.

Flow Statements

58. Another type of financial statement provides information on an entity's flows of revenues, receipts, expenditures, expenses, gains, losses, and/or other changes of the entity's net resources during a period, however they are measured, i.e., budgetary, cash, or accrual. This type of financial statement is frequently characterized as a flow statement. The traditional flow statement is a statement of operations and changes in net position issued by private sector, profit seeking organizations. It presents the results of an entity's operations for a reporting period, including the changes in the entity's net position from the end of the prior reporting period. This type of statement is particularly useful for private sector, profit seeking organizations since their objective is to generate earnings and returns on investment. The statement of operations and changes in net position presents the revenues the entity receives, the expenses incurred to generate the revenues, the amount left for the entity's owners, and the resulting effect on the owners' equity.
59. The Federal Government and most of the other reporting entities in the Federal Government are spending entities whose objective is to

provide services, some of which are financed by revenues received from the recipients of the service, and some of which, if not all or most of which, are financed by taxes and other unearned revenues.⁸ Thus, the most useful information a flow statement could present is the total and net costs of the services, i.e., how much of the services provided by the entity was financed by the taxpayers. This type of statement, which would be a **statement of net costs**, would support the achievement of Federal financial reporting objective 2A. Objective 2A states that “Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes, in these costs.”

60. As indicated, revenues provided in exchange for the services, i.e., earned revenues, are not the only manner in which a Federal Government entity finances the services it provides. Other sources of financing are the appropriations received from the Congress, and such various non-exchange revenues as fines, donations, and transfers from other agencies. Therefore, another useful flow statement would be a **statement of changes in net position** that presents the manner in which the entity’s net costs were financed and the resulting effect on the entity’s net position. This also would be consistent with Federal financial reporting objective 2: “Federal financial reporting should assist report users in evaluating. . .the manner in which these efforts and accomplishments have been financed...”
61. The collection of the major sources of funds for the appropriations, e.g., taxes, royalty payments, and fines, is the responsibility of just a few reporting entities, especially the Internal Revenue Service, the Customs Service, and the Minerals Management Service. These entities are functioning in a custodial capacity and are required to turn the taxes or other monies they collect over to the Treasury or other organizations. The results of these entities’ custodial activities could be reported in a flow statement that provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed. This would be called a **statement of custodial activities**.

⁸The Board is currently developing an Exposure Draft entitled “*Revenue and Other Financing Sources*” which addresses more fully the types of revenues (i.e., exchange versus non-exchange and earned versus unearned revenues) discussed here.

62. For many reporting entities, and particularly those engaged in reimbursable activities, it is useful to have an understanding of the sources and amounts of cash provided to the entity for operating, investing, and financing purposes and the major purposes for which the cash was used. This type of information can be displayed with a statement of cash flows, in accompanying footnotes, or as supplemental financial and management information.

Budget Statement

63. Meeting the first objective of SFFAC No. 1, "Objectives of Federal Financial Reporting," namely the budgetary integrity objective, necessitates that the reader receive assurance that
- the amounts obligated or spent did not exceed the available budget authority,
 - obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,
 - other legal requirements pertaining to the account have been met, and
 - the amounts are properly classified and accurately reported.
64. This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information could be accomplished by including a **statement of budgetary resources** in the reporting entity's financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)

Reconciliation
Statement–Budgetary
And Financial
Accounting

- 64A. Subobjective 1C of the budgetary integrity objective states that information is needed to help the reader to determine “how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.” This objective arises because accrual-based expense measures used in financial statements differ from the obligation-based measures used in the budgetary reports.
- 64B. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a **Statement of Financing** that reconciles the budgetary resources obligated for a federal entity’s programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

Performance Measures
Statement

65. The second objective of Federal financial reporting states, in part, that Federal financial reporting should provide information that helps readers of the financial reports determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs. This suggests that a **statement of program performance measures**,⁹ i.e., one or more statements presenting service efforts and accomplishments measures for each of a reporting entity’s significant programs, is necessary.
66. The Federal Government is increasing its interest in measuring and reporting program performance, as evidenced by the enactment of the Government Performance and Results Act and increasing emphasis during budget reviews on program performance. Moreover, the ability to seek and obtain maximum return from increasingly limited resources can be enhanced by an understanding of the results of the programs for which budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide

⁹The Board does not consider the Statement of Program Performance Measures to be a basic financial statement.

services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.

67. For a statement of program performance measures prepared by an organization-level reporting entity, the outputs and outcomes would be related to the performance of the entity itself and its own programs, e.g., clients vaccinated, illnesses prevented. For the government-wide report, broader measures of outcomes and impacts that depended on the joint efforts of several reporting entities would be appropriate, e.g., state of the economy, national security, environment, personal health, social welfare, although some narrower outcome measures might also be included.

Other Information

68. Financial information is also conveyed with **accompanying footnotes**, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.
69. It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis** or **overview** of the reporting entity.
70. The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the

government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.¹⁰ This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions.

71. The information pertaining to the aforementioned investments, certain types of property, plant, and equipment,¹¹ and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental information** rather than attempting to include it in financial statements.¹²
72. [Rescinded per SFFAC 6.]
73. The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion

¹⁰A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained in paragraphs 134 to 145 of Statement of Federal Financial Accounting Concepts No. 1, "*Objectives of Federal Financial Reporting*."

¹¹[Text rescinded per SFFAC 6.]

¹²[Text rescinded per SFFAC 6.]

could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

Distinguishing Basic Information, RSI, and OAI

Determining Required Information

73A. Selecting a category for communicating information may involve a process that begins with determining what information should be required. Required information is information that consists of basic information and RSI. An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).

Determining Basic Information versus RSI

73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core^{12.1} of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.

73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.

^{12.1}The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

73D. The Board specifies what information should be presented as basic information and what information should be presented as RSI. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI on page 107. The factors are not listed in a particular order and some may convey similar ideas. In addition, different Board members may assign different weight to each factor. Thus, the factors provide a general framework for each Board member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

73E. For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation, it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated. The rationales for some of the other factors that members may consider are:

- a. Use of various types of financial data or financial transaction data. Members may deliberate the nature of the data used or the type of system used to process the information. Financial data used or data derived from a system for processing financial transactions, may be more likely to be considered basic information.
- b. Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. By designating an item as basic information rather than RSI, the Board can have some bearing on the level of importance conveyed in the financial report and auditor's report. In other words, users may pay less attention to items categorized as "supplementary" in the financial report. Conversely, they may be more concerned with the auditor's conclusions regarding the fair presentation of the financial statements. Hence, the more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, such that if the item is missing or

materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.

- c. The extent to which the information interests a wide audience (rather than specialists). If an item of information is of great interest to users, the information may be a candidate for basic information. Conversely, if the item is primarily of interest to subject matter specialists, the information may accompany the basic information as RSI.
- d. Extent to which there are not alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
- e. Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for the expression of an opinion. The item of information may be a candidate for RSI.
- f. Experience among users, preparers, and auditors with the information. The Board may consider the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Also, when there is not sufficient experience to develop measurement criteria, auditors may have concerns about expressing an opinion on the information. They may express qualifications or include explanations in their report. Categorizing the information as RSI may encourage reporting while more experience is gained and criteria developed.
- g. Benefit/cost ratio of using resources to compile the information as well as ensure accuracy. The Board may consider the benefit and cost associated with producing and auditing the item of information.

OAI

73F. If an item of information does not meet the criteria for basic information or RSI, it becomes a candidate for OAI. OAI is information that accompanies basic information and RSI, but is not required by a body that establishes GAAP. Some entities may desire to report information to supplement required information and enhance a user's understanding of the entity's operations or financial condition. This may include, but is not limited to, information on delivery times, turnover, and wastage of inventories; expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. In addition, entities report information not required by a body that establishes GAAP, but required by laws or administrative directives. The laws or administrative directives may require the information to be audited and may require it to accompany basic information and RSI. However, this information is also considered OAI.

73G. Although the FASAB does not require OAI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, the FASAB may consider an item to be relevant to entity operations but, for the moment, does not meet other criteria for required information.

Table 1: Factors to Consider in Distinguishing Basic Information from RSI*

FACTORS TO CONSIDER IN DISTINGUISHING BASIC INFORMATION FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of various types of financial data or financial transaction data>	
	<Level of importance the Board wishes to be communicated in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	<Level of importance the Board wishes to be communicated in the auditor's report>	
	<Relevance to measuring financial condition or changes in financial condition>	
	<Extent to which the information interests a wide audience (rather than specialists)>	
	<Extent to which there are not alternative sources of reliable information>	
	<Agreement on criteria that permit comparable and consistent reporting>	
	<Experience among users, preparers, and auditors with the information>	
	<Benefit/cost ratio of using resources to compile the information as well as ensure accuracy>	
	<Connection with basic financial statements>	
	<Reliability and/or precision possible>	
	<Reliability and/or precision needed>	

*As noted in paragraph 73D, the factors are not listed in a particular order and do not represent a hierarchy of factors.

Financial Reporting For An Organizational Entity

74. Meeting the four objectives of Federal financial reporting in the most efficient manner suggests that reporting entities issue a financial report that would include the following:

- management’s discussion and analysis;
- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;

- statement of financing;^{12.2}
- statement of program performance measures;¹³
- accompanying footnotes;
- required supplementary information ; and
- other accompanying information.

75. With some organizations, and even suborganizations, the activities of one or more programs or other components are as important to the readers of the financial statements as are the activities of the entity as a whole. This would be particularly true for a Department composed of many bureaus, administrations, agencies, services, etc., and particularly if their programs are dissimilar. In those instances, consideration should be given to the preferability of reporting the assets, liabilities, revenues, expenses, etc. of both the significant components individually and of the entity in its entirety. Hence, larger organizations, and particularly those composed of many bureaus, administrations, agencies, etc., would prepare not only consolidated financial statements for the organizational entity, but also provide information pertaining to their individual significant components.¹⁴ The information for the individual components could be provided with separate columns in consolidating financial statements¹⁵ (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate

^{12.2}The Statement of Financing may be presented as a financial statement or as a schedule in the notes to the financial statements. The OMB will provide guidance regarding details of how the information will be displayed.

¹³The statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.

¹⁴Such components are similar to responsibility segments as referred to in SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, par. 78-81. Responsibility segments are used to accumulate costs and outputs for major lines of activity.

¹⁵A **consolidated financial statement** presents the transactions and balances for a reporting entity's components in a single column. In arriving at the consolidated amounts, the transactions and balances among the entities are eliminated. A **consolidating financial statement** presents the information for the reporting entity's components as well as the consolidated amounts in individual columns. The elimination of the inter-entity transactions and balances needed to arrive at the consolidated amounts might or might not be presented in a separate column.

column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.

76. Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., tax collection activity; maintains large and complex fund flow activity; has earmarked tax activity; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.¹⁶ In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.
77. The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances.¹⁷
- ~~78. Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than FASAB's, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the~~

¹⁶Sub-organizations required by statute to prepare and issue a separate financial statement would, by definition, also need to do so.

¹⁷[Rescinded by SFFAC 6.]

~~components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards issued by FASAB should be applied. The components would need to provide any additional disclosures required by FASAB and included in the OMB-issued guidance that would not be required by the other standards.~~

Financial Reporting For The Entire Government

79. In addition to budgetary integrity, operating performance, and systems and control information, readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:
- management's discussion and analysis;
 - statement of financial position (commonly referred to as balance sheet);
 - statement of net costs;
 - statement of operations and changes in net position;
 - reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
 - statement of changes in cash balance from unified budget and other activities;
 - comparison of budgeted and actual use of resources;
 - statement of program performance measures;
 - accompanying footnotes;
 - required supplementary information; and
 - other accompanying information.
80. The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.
81. [Rescinded by SFFAC 6.]
82. The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

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83. Because the government is a complete and integral economic entity, in contrast to the departments and major agencies whose components frequently have nothing in common other than belonging to the same department, it would be appropriate that the financial statement for the entire government be a consolidated financial statement. However, it might also be appropriate to display selected information for the components, funds, etc., either within the consolidated financial statement, in accompanying footnotes, and/or as supplemental information.

Recommended Contents For The Recommended Displays

Balance Sheet

84. The elements most likely to be presented in the balance sheet of a Federal suborganization/organization, program, or the entire government would be as follows:
- **Fund Balance with Treasury.** This represents the amount in the entity's accounts with the U.S. Treasury that is available only for the purposes for which the funds were appropriated. It may also include balances held by the entity in the capacity of a banker or agent for others. However, Fund Balance with Treasury (FBWT) meeting the definition of fiduciary FBWT should not be recognized on the balance sheet, but should be disclosed in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.
 - **Cash and other monetary assets.** Cash consists of coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.
 - **Investments.** While Federal agencies have the authority to invest, they are typically limited to investing in securities issued by the Department of the Treasury or other Federal entities. There could be instances, however, when an agency owns property or securities issued by state or local governments,

private corporations, or government sponsored enterprises, primarily for the purpose of obtaining a monetary return.

- **Receivables.** These are the amounts that the entity claims for payment from others. Receivables can result from such activities as the sales of goods or services, the non-payment of taxes, the making of loans or loans assumed from defaults on previously made loan guarantees, the earning of interest, the advance or prepayment of monies, etc.
- **Inventories and related properties.** Inventories consist of tangible personal property held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee. Related properties that could be owned by a Federal program, suborganization or organization, or the entire government include operating materials and supplies, stockpile materials, seized property, forfeited property, and goods held under price support and stabilization programs.
- **Property, plant, and equipment.** Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. Some PP&E are held by the Federal Government but not used to provide a service. They are in themselves a service. Examples are heritage assets such as monuments and museum collections; the service is the sense of tradition, understanding, and pride visitors receive visiting these sites. Information pertaining to these assets would not necessarily be displayed in the balance sheet, but rather as required supplemental information.¹⁸
- **Liabilities.** These are the amounts the reporting entity owes to others for goods or services received, progress in contract performance, defaulted guarantees, funds held as deposits etc. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. Also, because the Federal Government is a sovereign entity, it can abrogate at any time many of its liabilities arising

¹⁸The Board issued an Exposure Draft, *Accounting for Property, Plant, and Equipment* (PP&E ED), on February 28, 1995 addressing those items of PP&E that would be reported on the balance sheet. The PP&E ED also proposes definitions for categories of PP&E that would not be reported on the balance sheet. In a separate ED, the Board will address other means of reporting on the non-balance sheet categories—possibly including separate basic financial statements and required supplemental information.

from other than contracts. This does not, however, eliminate the existence of, and therefore the need to report, liabilities incurred by the reporting entity.

- **Net position.** Net position is the residual difference between assets and liabilities. It is generally composed of unexpended appropriations and the cumulative results of operations. Included in the former would be appropriations not yet obligated or expended, including undelivered orders. Included in the latter would be the amounts accumulated over the years by the entity from its financing sources less its expenses and losses, which would include donated capital and transfers in the net investment of the Government in the reporting entity's assets; and an amount representing the entity's liabilities for such things as accrued leave, credit reform subsidies, and actuarial liabilities not covered by available budgetary resources.

85. Assets the reporting entity holds and has the authority to use in its operations should be displayed separately from assets the entity holds but does not have the authority to use. Likewise, liabilities for which budgetary authority has been received for liquidating the liabilities should be displayed separately from liabilities for which budget authority has not been received (even if the authority is expected). Assets and liabilities arising from transactions among Federal entities should be displayed separately from assets and liabilities arising from transactions with non-Federal entities.

Statement Of Net Costs

86. The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.
87. The costs can be classified in a reporting entity's statement of net costs by sub-organization (assuming the reporting entity is an organization), by program, or by object class, or any combination thereof. Object class, also referred to as a "natural" classification,

represents the nature or types of goods or services acquired without regard to the organization involved or the program for which they were used. Reporting of the sub-organization incurring the costs and/or the purposes for which the costs were incurred generally provides more useful information than reporting on the types of goods or services acquired.

88. The statement of net costs should also present the revenues earned by each program and organization. The manner in which the earned revenues would be presented would depend on the purpose of the program and the reasons why the revenues are present.
89. Some programs are established with generation of revenue as a primary consideration or purpose. One example would be when the goods or services provided by the organization are also available from the private sector and not charging a fee for the goods or services would be unfair competition. Another example would be when it is deemed appropriate that the persons or organizations receiving the goods or service pay for the goods or services, usually to be able to ascertain the true cost of the activity using the goods or services, e.g., the Defense Business Operations Fund, Postal Service. Still another example is when revenues are imposed to limit the unnecessary consumption of the goods or services. In each of these instances, the revenues earned by the program(s) should be considered a deduction from the total costs of the program(s).
90. With other programs, the revenues are generated from administering an inherently governmental service, which means the revenues are not a primary consideration for the program. Rather, the revenues are a means to recover all or most of the costs of administering the program, e.g., the Securities and Exchange Commission. In those instances, the revenues should be considered a deduction from the total costs of the organization, not the program.
91. In still other instances, an organization's revenues can be generated by providing a specific program, but the revenues are not a primary consideration in the conduct of the program; they are incidental to the purpose of the program, e.g., the sale of maps by the Geological Survey. In those instances, it would be appropriate to consider the earned revenues as a deduction from the incremental costs that need to be incurred in order to provide the goods or services that generate the incidental revenues, to the extent that the incremental costs are

measurable and relevant to decision making. Otherwise the revenues should be considered a deduction from the program's or organization's total costs.

92. Earned revenues that are insignificant in amount can be netted into the costs of the programs with the amounts disclosed in accompanying footnotes, if appropriate.
93. An organization or sub-organization could receive different types of revenues for different purposes and/or reasons. Each of the revenues and associated costs would be displayed in accordance with the concepts presented in paragraphs 89 through 92.
94. The costs associated with and displayed for each program should reflect costs that can be directly traced to the program, assigned to the program based on cause and effect, or allocated to the program on a reasonable and consistent basis, consistent with the premise that any costs reported for a program should be controllable by the program to at least some degree. Those costs that are not directly traceable, assignable, or allocable could be considered program or management support costs that are incurred by the reporting organization or another organization to administer the reporting organization's or program's activities. For example, in a reporting entity that provides social services, the program costs would be the cash payments and the salary and other costs, e.g., rent, supplies, directly associated with persons providing counseling to the recipients of the cash payments. The organizational support costs would be the costs of the organizational structure required to administer the organization, i.e., not directly attributable to the programs provided by the organization.
95. Organizational and program management costs are necessary costs of operating an organization and programs. Not displaying these costs because of a belief that an allocation for these activities would be eliminated or reduced in order to obtain a reduction of the cost of the entire organization or program is illogical. The alternative concept, which is burying the management costs with the program costs, increases the likelihood that the management activity will be subject to reductions imposed on the program delivery activities. Separately identifying the management costs enables the use of resources for these activities to be justified on their own merit. The costs for managing the organization and/or program can therefore be displayed on the face of the financial statements or in accompanying footnotes,

particularly when it would assist in evaluating operating performance and is cost-effective. Disclosure of what the support costs entail would be appropriate.

96. The total costs displayed in a reporting entity's financial statements should be the same as the total costs recorded by an organization in its cost accounting system. If, for financial reporting purposes, the organization does not allocate organizational management costs among the programs, the total costs displayed for any one program in the entity's financial statements could be different than the costs recorded for that program in the cost accounting system.
97. Other earned revenues would include revenues not attributable to a specific program.
98. Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities.
99. The decision as to how to display total program costs, earned revenues, net program costs, and organizational and program management costs should be based, in part, on a consideration of what the Congress, management, and others might want to know about the costs of providing an organization's programs.

Statement Of Changes In Net Position

100. The appropriate elements for a statement of changes in net position would be as follows:
 - **Net costs** display the amount that had to be financed by other than earned revenues.
 - **Appropriations used** represent the amount of budget authority, including transferred budget authority, used by the organization to finance its operations.
 - **Non-exchange revenues** include dedicated taxes, fines, and other revenues the Government is able to obtain due to its sovereign powers.
 - **Donations** are monies and materials given by private persons and organizations to the Government without receiving anything in exchange.

- **Transfers in** are amounts of cash or other capitalized assets received by one Government entity from another Government entity without reimbursement.
- **Transfers out** are amounts of cash or other capitalized assets provided by one Government entity to another without reimbursement.
- **Imputed financing sources** are of two types: amounts equal to the costs that have been incurred by the reporting entity but financed by another entity, e.g., retirement costs; and amounts representing costs that are attributable to the reporting entity's activities but that do not require a direct out-of-pocket payment, e.g., the interest costs associated with carrying inventory or investing in physical assets.¹⁹
- **Prior period adjustments** are corrections of prior period results of operations.
- **Increase (decrease) in unexpended appropriations** is the change in appropriated capital, including transferred budgetary resources, that does not affect the net cost of operations but does affect net position.
- **Net position-beginning of the period** is the total unexpended appropriations and cumulative results of operations held by the entity at the beginning of the reporting period.
- **Net position-end of the period** results from adding and netting the various amounts associated with the operations of the entity during the reporting period, including the net position-beginning of the period and any prior period adjustments. The amount will thus equal the total unexpended appropriations and cumulative results of operations held by the entity at the end of the period.

Statement Of Custodial Activities

101. A separate statement of custodial activities would be appropriate for those entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire Government's operations, or at least the programs of other entities, rather than their own activities. The revenues should be characterized by those agencies as custodial revenues. The statement should display the sources and amounts of the collections of custodial

¹⁹The Board plans to undertake a project on the interest cost associated with investing in operating assets. At this time, no decision has been made on the recognition by individual entities of these types of costs.

revenues, any increases or decreases in amounts collectable but not collected, the disposition of the collections through transfers to other entities, the amounts retained by the collecting entity, and any increase or decrease in the amounts to be transferred.

102. Custodial collections do not include deposit funds, i.e., amounts held temporarily by the government (e.g., bidders' earnest money or guarantees for performance) or amounts held by the Government as an agent for others, (e.g., state income taxes withheld from Federal employees' salaries that are to be transferred to the states). These types of collections should be reported in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.
103. Organizations that collect custodial revenues that are incidental to their primary mission do not need to report the collections and disposition of these revenues in a separate statement. The disclosure of the sources and amounts of the collections and the amounts distributed to others could be disclosed in accompanying footnotes.

Statement Of Budgetary Resources

104. The appropriate elements for a statement of budgetary resources prepared for a reporting entity would be as follows:
- **Budgetary resources made available** is the amount available to enter into obligations that will result in immediate or future outlays involving Federal Government funds. The resources should be relevant to the reporting period. The components of budgetary resources would include budget authority (i.e., appropriations, borrowing authority, and contract authority) and unobligated balances of multi-year and no-year money remaining from prior reporting periods. Budgetary resources would also include reimbursements and other income (i.e., spending authority from offsetting collections credited to an appropriation or fund account) and adjustments (e.g., recoveries of prior year obligations).
 - **Status of Budgetary Resources** displays the disposition of the budgetary resources made available. It consists of the obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year lapsed budget authority that are not available, but have been carried forward to be used only to record, adjust, or liquidate obligations chargeable to the

appropriation. The total amount displayed for status should be equal to the total amount displayed as being made available.

- **Outlays** are payments to liquidate obligations, net of offsetting collections. Obligations are usually liquidated by means of cash payments (currency, checks, or electronic funds transfers), but in certain cases obligations are liquidated and outlays recorded even though no cash is disbursed. It would be appropriate, in displaying outlay information, to tie it to the obligations incurred by also displaying the transfers of obligations and the obligated balances at the beginning and end of the period.

105. Budgetary resources, obligations, outlays, and receipts are reported in the Treasury's Annual Report and Monthly Treasury Statement and in the President's Budget, although not all these publications report all these measures. These documents are usually issued prior to the issuance of financial statements prepared in accordance with generally accepted accounting principles applicable to the Federal Government. In preparing these statements, significant differences should be noted between amounts reported in the former documents and amounts reported in the subsequently prepared financial statements. Such differences should be adjusted in the records of the reporting entity and in the related records maintained by the central agencies, and the correct amounts reported in the financial statements. It would also be desirable to provide a reconciliation for significant differences appearing in the two types of statements.

Statement of Financing

105A. The purpose of the Statement of Financing is to explain how budgetary resources obligated during the period relate to the net cost of operations for that reporting entity. This information should be presented in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship through a reconciliation, the statement provides information necessary to understand how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity. The appropriate elements for the Statement of Financing would be as indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from obligations to net cost of operations.

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- 105B. **Obligations incurred** are amounts of new orders placed, contracts awarded, services received, and other similar transactions during the period that will require payments during the same or a future period. A deduction is needed for spending authority from offsetting collections and recoveries of prior period obligations.
- 105C. **Nonbudgetary resources** represent the net amount of resources received by the entity that are not included in budgetary resources. These items could include donations of assets, transfers of assets from (to) other federal entities, and financing imputed for cost subsidies. This amount would also include decreases (increases) in receivables related to revenue accrued from the public because, while the cash collected for exchange revenue is a budgetary resource, the accrual amount is not.
- 105D. **Resources that do not fund net cost of operations** are primarily (a) the change in amount of goods, services, and benefits ordered but not yet received or provided, (b) amounts provided in the current reporting period that fund costs incurred in prior years, and (c) amounts incurred for goods or services that have been capitalized on the balance sheet.
- 105E. **Costs that do not require resources** are most commonly the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations).
- 105F. **Financing sources yet to be provided** are the financing amounts needed in a future period to cover cost incurred in the current period.
- 105G. The bottom line of this reconciliation would be the **net cost of operations**.

Statement Of Program
Performance Measures

106. The statement of program performance measures should include measures for each of the major programs the reporting entity operates. The preferred types of measures are (1) output measures, i.e., the quantity of a service or product provided or the percentage of the target group provided the service or product, and that ideally meets a certain quality requirement; and (2) outcome measures, i.e., the accomplishments or results that occurred because of the services

or outcomes provided. Outcome measures could address either the ultimate program outcome or intermediate outcomes, e.g., accuracy of, timeliness of, or satisfaction with the services provided. Workload, process, and input measures should be in the minority. Explanatory information that helps the readers understand the reported measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance is appropriate. Comparative measures from prior years or similar programs and industry standards are also appropriate. They help to provide a better understanding of the level of the reporting entity's performance.²⁰

107. The measures selected for reporting should relate to the programs' purposes and goals. It would be particularly useful to include measures previously included in budget documents and other materials released to the public. It would also be useful to base the selection of measures on discussions with budget examiners, Congressional staffs, and other users of the entity's financial statements.
108. The statement of program performance measures should not be cluttered with trivial measures. Measures selected should be considered important by decisionmakers and particularly the resource providers that are likely to use the financial statements. Also, relevant measures should be reported, without regard to whether they portray positive or negative performance. The most significant measures should be extracted for highlighting in the management's discussion and analysis.
109. Other characteristics to consider for reporting program performance measures are as follows :

²⁰The acceptance of a statement of program performance will increase in relation to the users' perception of the relevance and reliability of the reported information. These perceptions can be enhanced to the extent there are independent assessments of the appropriateness of the measures, the completeness of the data, the actual occurrence of the reported events, and the values assigned to the data. Auditors of Federal agency financial statements are currently required (by an OMB Bulletin) to evaluate the underlying control structure for program performance measures included with the financial statements. The extent to which auditors will be expected to expand the scope of their involvement with program performance measures to include the aforementioned independent assessments would be specified by OMB consistent with government audit standards.

- **Completeness.** The measures, in the aggregate, should cover all aspects of the reporting entity's mission.
- **Legitimacy.** The measures should be accepted as relevant both inside the reporting entity and by the external stakeholders and others, e.g., the central management agencies, Congress, interest groups, the public.
- **Understandability.** The measures should communicate the performance of the entity in a readily understandable manner to any reasonably informed and interested party.
- **Comparability.** The measures should provide a frame of reference for assessing, and comparing, if appropriate, the performance of the entity and entities with similar programs for both the immediate period and over time.
- **Ability to relate to cost.** The measures should be such that a cost can be defined for each unit of output, outcome, input, etc.
- **Timeliness.** The measures should be available to users of the financial statements before they lose their capacity to be of value in assessing accountability and making decisions. The value of timeliness should not preclude the use of important measures for which results are not immediately available.
- **Consistency.** The measures should be reported consistently from period to period to allow users to have a basis for comparison and to gain an understanding of the measures being used and their meaning (recognizing that the measures should be reviewed regularly and modifications made to reflect changing circumstances).
- **Reliability.** The information should be derived from systems that produce controlled and verifiable data, although at times it may be necessary to rely on secondary sources of data.²¹

110. Since many Federal Government programs have counterpart programs at the state and local government level, for those programs, it would

²¹The Public Management Committee of the Organization for Economic Cooperation and Development, which is comprised of the twenty four democratic nations with advanced market economies, has been studying performance management systems. It has concluded, based on the experiences of countries that have implemented such systems, that performance measures should reflect three important characteristics: validity, continuity, and legitimacy. These characteristics, while intended to guide management systems in their totality, rather than simply inclusion in financial statements, have nonetheless been incorporated into the above characteristics.

also be appropriate to consider the measures states and local governments use to report performance.

111. Numerical measures are not the only way to report program performance. In some instances, it may be more meaningful and practicable to report performance with other than numerical measures.

112. Example formats for displaying the recommended elements are provided in appendix 1. These formats are illustrative and provided solely to help readers of this document better understand the recommended concepts for displaying financial and related information. In exposing proposed standards, the Board might portray other formats. The ultimate specification of the form and content for financial statements for Federal agencies is defined by OMB.

Appendix 1-A: Example Financial Statement Formats Balance Sheet

BALANCE SHEET - as of September 30, 19X4 - ASSETS

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
Entity assets:					
Fund balance with Treasury	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Cash (and other monetary assets)	xxx	xxx	xxx	xxx	xxx
Investments:					
Intragovernmental	xxx	---	xxx	xxx	xxx
With the public	xxx	xxx	xxx	xxx	xxx
Receivables:					
Intragovernmental	xxx	xxx	xxx	xxx	xxx
With the public	xxx	---	xxx	xxx	xxx
Inventories and related properties	xxx	xxx	xxx	xxx	xxx
Physical assets	xxx	xxx	xxx	xxx	xxx
Total entity assets	xxx	xxx	xxx	xxx	xxx
Non-entity assets:					
Fund balance with Treasury	xxx	xxx	xxx	xxx	xxx
Cash	xxx	xxx	xxx	xxx	xxx
Receivables:					
Intragovernmental	xxx	xxx	xxx	xxx	xxx
With the public	xxx	xxx	xxx	xxx	xxx
Total non-entity assets	xxx	xxx	xxx	xxx	xxx
Total assets	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx

BALANCE SHEET - as of September 30, 19X4 - LIABILITIES AND NET POSITION

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
LIABILITIES					
Liabilities covered by budgetary resources:					
Intragovernmental liabilities:					
Payables	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Governmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
Total liabilities covered by budgetary resources	xxx	xxx	xxx	xxx	xxx
Liabilities not covered by budgetary resources:					
Intragovernmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
Governmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
Amounts held for others	xxx	---	xxx	xxx	xxx
Total liabilities not covered by budgetary resources	xxx	xxx	xxx	xxx	xxx
Total liabilities	xxx	xxx	xxx	xxx	xxx
NET POSITION					
Unexpended appropriations	xxx	xxx	xxx	xxx	xxx
Cumulative results of operations	xxx	xxx	xxx	xxx	xxx
Total net position	xxx	xxx	xxx	xxx	xxx
Total liabilities and net position	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx

Note: The above balance sheet format is for an organization composed of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

Appendix 1-B: Example Financial Statement Formats

Statement of Net Costs

STATEMENT OF NET COSTS - For the year ended September 30, 19X4

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
COSTS:					
Program A:					
Intragovernmental	\$xxx	\$---	\$---	\$xxx	\$xxx
With the public	xxx	---	---	---	---
Total	xxx	---	---	---	---
Less earned revenues	xxx	---	---	xxx	---
Net program costs	xxx	---	---	xxx	xxx
Program B:					
With the public	---	xxx	xxx	xxx	xxx
Less earned revenues	---	xxx	xxx	xxx	xxx
Net program costs	---	xxx	xxx	xxx	xxx
Program C:					
Intragovernmental	xxx	xxx	---	xxx	xxx
With the public	xxx	xxx	---	xxx	xxx
Net program costs	xxx	xxx	---	xxx	xxx
Program D:					
Costs with the public	---	xxx	---	xxx	xxx
Cost not allocated to programs	xxx	xxx	xxx	xxx	xxx
Less other earned revenues	---	---	xxx	xxx	xxx
NET COST OF OPERATIONS	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx

Appendix 1-C: Example Financial Statement Formats
Statement of Changes in Net Position

STATEMENT OF CHANGES IN NET POSITION - For the year ended September 30, 19X4

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
NET COST OF OPERATIONS	\$(xxx)	\$(xxx)	\$(xxx)	\$(xxx)	\$(xxx)
FINANCING SOURCES					
Appropriations Used	xxx	xxx	xxx	xxx	xxx
Taxes (non-exchange revenue)	xxx	xxx	xxx	xxx	xxx
Donations (non-exchange revenue)	---	xxx	xxx	xxx	xxx
Imputed Financing	xxx	xxx	xxx	xxx	xxx
Transfers-in	xxx	---	xxx	xxx	xxx
Transfers-out	---	(xxx)	---	(xxx)	---
NET RESULTS OF OPERATIONS	xxx	xxx	xxx	xxx	xxx
PRIOR PERIOD ADJUSTMENTS	xxx	xxx	---	xxx	xxx
NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS	xxx	xxx	xxx	xxx	xxx
INCREASE (DECREASE) IN UNEXPENDED APPROPRIATIONS	xxx	(xxx)	xxx	xxx	xxx
CHANGE IN NET POSITION	xxx	xxx	xxx	xxx	xxx
NET POSITION-BEGINNING OF PERIOD	xxx	xxx	xxx	xxx	xxx
NET POSITION-END OF PERIOD	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx

Note: The above statement of changes in net position format is for an organization comprised of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

Appendix 1-D: Example Financial Statement Formats
Statement of Custodial Activities

STATEMENT OF CUSTODIAL ACTIVITIES - For the year ended September 30, 19X4

	FY 19X4	FY 19X3
Collections:		
Income Taxes	\$(xxx)	\$(xxx)
Estate and gift taxes	xxx	xxx
Excise Taxes	xxx	xxx
Employment Taxes	xxx	xxx
Penalties and Interest	xxx	xxx
Total collections	xxx	xxx
Refunds and other payments	(xxx)	(xxx)
Net collections	xxx	xxx
Accrual adjustment	xxx	(xxx)
Total revenues collected	xxx	xxx
Disposition of revenues collected:		
Transferred to others:		
Department of the Treasury	xxx	xxx
Department of Labor	xxx	xxx
Environmental Protection Agency	xxx	xxx
Total transfers	xxx	xxx
Retained by the entity	xxx	xxx
Increase (decrease) in amounts to be transferred	xxx	(xxx)
Total disposition of revenues collected	xxx	xxx
Net custodial collections	\$000	\$000

Appendix 1-E: Example Financial Statement Formats
Statement of Budgetary Resources

STATEMENT OF BUDGETARY RESOURCES - For the year ended September 30, 19X4

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
Budgetary resources made available:					
Budget authority	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Unobligated balances-beginning of period	xxx	xxx	xxx	xxx	xxx
Reimbursements and other income	xxx	xxx	xxx	xxx	xxx
Adjustments	xxx	xxx	xxx	xxx	xxx
Total, budgetary resources made available	xxx	xxx	xxx	xxx	xxx
Status of budgetary resources:					
Obligations incurred (gross)	xxx	xxx	xxx	xxx	xxx
Unobligated balances-end of period	xxx	xxx	xxx	xxx	xxx
Unobligated balances-not available	xxx	xxx	xxx	xxx	xxx
Total, status of budgetary resources	xxx	xxx	xxx	xxx	xxx
Outlays					
Obligations incurred, net	xxx	xxx	xxx	xxx	xxx
Obligations balance transferred	xxx	xxx	xxx	xxx	xxx
Obligations balance-beginning of period	xxx	xxx	xxx	xxx	xxx
Less: obligations balance-end of period	xxx	xxx	xxx	xxx	xxx
Total, outlays	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx

Appendix 1-F: Example Financial Statement Formats

Statement of Program Performance Measures

Statement of Program Performance Measures²² - For the year ended September 30, 19X4

	FY 19X4	FY 19X3	FY 19X2
Sub-organization A			
Program			
Performance Measure	xxx	xxx	xxx
Performance Measure	xxx	xxx	xxx
Program			
Performance Measure	xx%	xx%	xx%
Performance Measure	xxx	xxx	xxx
Program			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%
Sub-organization B			
Program			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%
Program			
Performance Measure	xx%	xx%	xx%
Performance Measure	xxx	xxx	xxx
Sub-organization C			
Program			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%

Note: Sub-organizations A, B, and C are equivalent to responsibility segments for which cost and financial data are collected. (See FASAB Exposure Draft, "Managerial Cost Accounting for Federal Government", pages 26-30.)

²²Although this example contains only numerical measures, the performance for some programs might be reported with other than numerical measures.

Appendix 1-G: Statement of Financing

EXAMPLE FINANCIAL STATEMENT FORMATS - STATEMENT OF FINANCING - For the year ended September 30, 19X4

Obligations and Nonbudgetary Resources

Obligations incurred	\$XXX
Spending authority for offsetting collections and other budgetary adjustment	(X)
Donations not in the budget	X
Financing imputed for cost subsidies	X
Transfers-in (out)	X
Other	X
Obligations, as adjusted, and Nonbudgetary Resources	XXX

Resources That Do Not Fund Net Cost of Operations

Change in amount of goods, services, and benefits ordered but not yet received or provided	(X)
Cost capitalized on the balance sheet	(X)
Financing sources that fund costs of prior periods	(X)
Other	(X)

Costs That Do Not Require Resources

Depreciation and amortization	X
Revaluation of assets and liabilities	X
Other	X

Financing Sources Yet to be Provided

	<u>X</u>
Net Cost of Operations	<u>\$XXX</u>

Appendix 2: List of Acronyms

See Consolidated List of Acronyms in “Appendix F: Consolidated List of Abbreviations” on page 1.