



**June 6, 2014**

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

*Wendy M. Payne*

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity--Tab A<sup>1</sup>**

#### **MEETING OBJECTIVES**

- To review the draft of the *Reporting Entity* proposed accounting standard with all agreed upon changes as well as other editorial changes incorporated into the document.

Staff anticipates most of the revisions will be accepted by members because they were discussed and approved at previous meetings. Most changes, especially those relating to technical matters reference the board meeting and minutes where the issue was discussed and conclusions reached.

#### **BRIEFING MATERIAL**

The transmittal memorandum includes a short discussion, beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page. In addition the following items are attached:

**Attachment A:** *Reporting Entity* Draft (with changes MARKED and explained.)

**Attachment B:** *Reporting Entity* Draft (CLEAN version with changes incorporated.)

**Appendix 1:** SFFAC 2, *Entity and Display* (with changes MARKED)

**Appendix 2:** Updated Staff Disposition of Comments

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<sup>1</sup> 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.

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

## **BACKGROUND**

As you may recall over the last several meetings, the board deliberated issues that were brought up by participants at the public hearing and identified in the comment letters on the *Reporting Entity* exposure draft. As noted above, all changes have been incorporated into the document for the board's review.

As requested, staff has included a copy of SFFAC 2, *Entity and Display*, with changes marked. An updated copy of the dispositions of comments is also included with the briefing materials.

## **NEXT STEPS**

As noted above, staff anticipates most revisions will be accepted because the technical matters have been discussed by the board. However, board members should communicate any technical issues as soon as possible so they can be identified for discussion. In addition, it would be helpful if any member plans or expects to dissent, that they make this known so they may work with staff to ensure timeframes for draft language are met. It is most helpful that dissents be circulated to members in a timely manner.

The goal would be to deliver a pre-ballot after the June meeting and to finalize a ballot at the August 2014 meeting so that it may be forwarded to the sponsors per the previously discussed timeframes.

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## **MEMBER FEEDBACK**

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. 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](mailto:loughanm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## STAFF ANALYSIS AND RECOMMENDATIONS

### **1. Proposed Changes**

The proposed changes in the document provide explanation in the comment boxes that reference the board meeting and minutes where the issue was discussed and conclusions reached. Therefore, staff did not believe providing a separate detailed analysis was necessary, but wanted to ask for feedback and questions on the changes. However, staff would like to point out that the changes to paragraphs 68 and 86c (as well as A97 and A98 that support 86c) may appear more substantial than others and may require some board discussion.

As you may recall, paragraph 86c is a follow-up from the April board meeting. Staff was directed to clarify the language in the related party.

Paragraph 68 relates to a matter that staff was also following up on - component reporting entity level FASB conversion. It was determined that certain entities convert and the results are meaningful--for example, certain Treasury bureaus convert and this allows presentation of all imputed costs (e.g., pension and OPEB) and all budgetary resources. Therefore, staff believed the language should be permissive with "may" to allow for such circumstances.

**Question: Do any members have comments or questions regarding the proposed changes? Staff believes sufficient time has been provided for this topic to enable wording changes, if necessary, to be discussed and approved at the meeting.**

### **2. Technical Issues or Other Matters**

As requested, staff has included a copy of SFFAC 2, *Entity and Display*, with changes marked.

Members should bring up any technical issues related to this project prior to or by the close of the June meeting so that they may be addressed prior to the pre-ballot draft. Further, if any member plans or expects to dissent, it would be appreciated if they could alert staff of this by the close of the June meeting so that we can allow for the dissent in drafting the pre-ballot and planning the review process.

**Questions: Do members have questions regarding the marked copy of SFFAC 2?**

**Question: Do any members have any technical matters that should be addressed before moving to pre-ballot?**

## **QUESTIONS FOR THE BOARD**

- 1. Do any members have comments or questions regarding the proposed changes?**
- 2. Do members have questions regarding the marked copy of SFFAC 2?**
- 3. Do any members have any technical matters that should be addressed before moving to pre-ballot?**



Federal Accounting Standards Advisory Board

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## REPORTING ENTITY

Statement of Federal Financial Accounting Standards 46

**Exposure Draft**

~~Written comments are requested by July 3, 2013~~

~~April 3~~September XX, 201314

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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](http://www.fasab.gov).

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## SUMMARY

**Comment [ML1]:** All deletions and changes to transfer to a final standard have been accepted in the document. For example, changing from an executive summary to summary and removing questions to respondents.

This Statement establishes principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFRRs). The principles guide financial reporting to 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 organization is or should be considered a federal agency for legal or political purposes. Rather, the principles guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFRR for financial accountability purposes.

The government-wide GPFRR 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 Statement establishes that an organization be included in the government-wide GPFRR 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.

The Statement provides for determining the most appropriate means—consolidated financial statements or disclosures—to include information about these organizations in GPFRRs. Determining the most appropriate means requires an assessment of the degree to which the following characteristics are met: the organization is financed by taxes or other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the federal government, 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.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations that are to a large degree financed by the taxpayer, governed by elected officials, imposing risks and rewards on the federal government, 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 GPFRR are referred to as “consolidation entities.” Consolidation entities should apply Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, and are subject to the hierarchy of generally accepted accounting principles established for “federal entities” in Statement of Federal Financial Accounting Standards 34.

~~Consolidation is not appropriate for organizations operating with a high degree of autonomy.~~ Some organizations that meet the principles for inclusion are to a large degree 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." ~~While disclosure entities are not subject to the hierarchy of generally accepted accounting principles established for federal entities, information about such organizations~~ disclosure entities is needed for accountability purposes.

**Comment [ML2]:** December 2013 meeting Board agreed to change disclosure organization to disclosure entity. The deletion of organization has been accepted throughout the document. See December Minutes page 19.

The Statement establishes that each component reporting entity's GPFFR include all organizations for which it is accountable. This includes all consolidation entities and disclosure entities administratively assigned to it. The GPFFR for the government-wide reporting entity would be a consolidation of component reporting entity GPFFRs including information regarding disclosure entities. ~~One member would alter the proposal by not equating organizations in receivership, conservatorship, or owned or controlled as a result of an intervention to other disclosure organizations. This member notes that the Board is undertaking a project on risk assumed and believes that that project should establish the requirements for all receiverships, conservatorships, and interventions, not just those encompassed by these proposed standards. This member's alternative view is presented on page 54.~~

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 significant relationships with other parties. The Statement requires disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating policy 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 [WP3]:** Since it does have relationships with other parties, added "significant."

**Comment [GAO4]:** Conformance edit as agreed.

The Statement is effective for periods beginning after September 30, 2016~~7~~. Earlier implementation is ~~encouraged~~not permitted.

## TABLE OF CONTENTS

|  |             |
|--|-------------|
| <b>Summary</b> .....   | <b>1</b>    |
| <b>Introduction</b> .....  | <b>4</b>    |
| <b>Purpose</b> .....   | <b>4</b>    |
| <b>Materiality</b> .....   | <b>5</b>    |
| <b>Standards</b> .....   | <b>6</b>    |
| <b>Scope and Applicability</b> .....   | <b>6</b>    |
| <b>Definitions</b> .....   | <b>6</b>    |
| <b>Organizational Approach to Defining Boundaries</b> .....  | <b>7</b>    |
| <b>Principles for Inclusion in the Government-wide GPFRR</b> .....                                 | <b>8</b>    |
| In the Budget .....  | <b>9</b>    |
| Majority Ownership Interest .....  | <b>9</b>    |
| Control with Risk of Loss or Expectation of Benefit .....  | <b>10</b>   |
| Misleading to Exclude .....  | <b>12</b>   |
| <b>Reporting on Organizations—Consolidation Entities or Disclosure Organizations</b> .....         | <b>1342</b> |
| Consolidation entities .....   | <b>13</b>   |
| Disclosure organizations .....   | <b>1413</b> |
| <b>Identifying Organizations Component Reporting Entities Are Accountable For</b> .....            | <b>16</b>   |
| Scope of the Budget Process .....  | <b>17</b>   |
| Accountability Established Within a Component Reporting Entity .....                               | <b>1817</b> |
| Misleading to Exclude and / or Misleading to Include .....   | <b>19</b>   |
| <b>GPFRR Consolidation and Disclosure</b> .....  | <b>20</b>   |
| Consolidation entities .....   | <b>20</b>   |
| Reporting on Disclosure organizations .....  | <b>21</b>   |
| <b>Minimum Disclosures Regarding the Central Banking System</b> .....                              | <b>2524</b> |
| <b>Related Parties</b> .....   | <b>2625</b> |
| <b>Effect on Existing Concepts—Proposed Amendments to SFFAC 2, <i>Entity and Display</i></b> ..... | <b>2827</b> |
| <b>Effective Date</b> .....  | <b>3130</b> |
| <b>Appendix A: Basis for Conclusions</b> .....   | <b>3234</b> |
| <b>Appendix B: Flowchart</b> .....   | <b>5452</b> |
| <b>Appendix C: Illustrations</b> .....   | <b>5553</b> |
| <b>Appendix D: Abbreviations</b> .....   | <b>8684</b> |
| <b>Appendix E: Task Force Members</b> .....  | <b>8785</b> |
| <b>Appendix F: Glossary</b> .....  | <b>8886</b> |

## INTRODUCTION

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### PURPOSE

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1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**<sup>1</sup> (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** GPFFRs should allow the Congress and/or 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.<sup>2</sup> 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 meet federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such organizations are considered "consolidation entities" or "disclosure entities,"<sup>3</sup> 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. While not **directly** addressing the inclusion or classification of the components of the central banking system, the Statement does establish certain minimum disclosures regarding the central banking system.
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 **required** regarding **the nature of the relationship and financial-related**

**Comment [ML5]:** December 2013 meeting Board agreed to change disclosure organization to disclosure entity. The deletion of organization has been accepted throughout the document. See December Minutes page 19.

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

<sup>2</sup> 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 the FASB*, for more information regarding the hierarchy.

<sup>3</sup> "Consolidation entities" and "disclosure entities/organizations" are terms used to distinguish between entities based on the degrees to which the entity is (1) financed by taxes or other non-exchange revenue, (2) governed by **the Congress and/ or the President**~~electe~~~~d or appointed officials~~, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a market or non-market basis. See par. 38 - 55 for more information.

exposures to risk or potential gain through 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 GPFRR. Even in cases where legislation indicates an organization 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 GPFRR. 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

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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 reporting 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 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.<sup>4</sup>
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable federal reporting 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 federal reporting 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.

**Comment [ML6]:** Dec 2013 meeting-Board agreed to footnote and additional Bfc wording to address the Legislative and Judicial Branch issue. See page 16 & 19 of Dec Board minutes. Staff Edit – added reference to par. 4 of SFFAS 34.

### DEFINITIONS

8. **Reporting Entity** Reporting entities are organizations 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.<sup>5</sup> 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.

<sup>4</sup> SFFAS 34, par. 4, indicates FASAB GAAP would be the appropriate accounting standards for federal reporting entities within the executive, legislative, and judicial branches to adopt (footnote 4).

<sup>5</sup> 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.<sup>6</sup> Examples of component reporting entities include organizations 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 component 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.<sup>7</sup> See paragraphs [26 - 35 for full discussion](#).
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's ~~policy in making financial and operating~~ decisions.

**Comment [ML7]:** Deleted financial and operating to be consistent with board agreed upon language. See conforming language discussion in April 2014 minutes at page 20 and 32.

## 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 perspectives<sup>8</sup> for viewing the federal government, an organizational approach was established in SFFAC 2<sup>9</sup> as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations<sup>10</sup> 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

**Comment [ML8]:** Board agreed to address concern with Organizations partially in the budget with clarification to this footnote at the April 2014 meeting. See April minutes page 18 and 32

<sup>6</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>7</sup> 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.

<sup>8</sup> SFFAC 2, par. 13-28, discusses the organizational, budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

<sup>9</sup> SFFAC 2, par. 29-38.

<sup>10</sup> "Organization" [refers to the organization in its entirety including all funding sources \(for example, appropriations or donations\) for which the entity is accountable.](#) It is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

exclusion would cause the federal government’s financial statements to be misleading or incomplete.

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 federal financial 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 20) and then distinguishes between consolidation entities and disclosure entities (see Reporting on Organizations—Consolidation Entities or Disclosure Entities beginning with paragraph 38).
16. This Statement also establishes that component reporting entities’ GPFFRs must include all consolidation entities and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Identifying Organizations Component Reporting Entities Are Accountable For beginning with paragraph 56).
17. The Statement provides guidance for how to report on consolidation entities and disclosure entities (see GPFFR Consolidation and Disclosure beginning with paragraph 66).
18. The Statement establishes minimum disclosure requirements regarding the central banking system (see paragraph 79).
19. 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 Parties beginning with paragraph 80).

## PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

20. This Statement provides three principles for determining which organizations should be included<sup>11</sup> in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 37). The three principles are to be applied without considering whether the relationship is temporary or permanent. However, whether the relationship is temporary or permanent would influence the likelihood that the entity exhibits to a greater degree the characteristics of a consolidation entity or of a disclosure entity.
21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:
  - a. In the Budget

**Comment [ML9]:** Board agreed to add this in conjunction w Temporary issue at March board meeting. See March minutes 9-15 and 24. Staff edits conform this wording to the wording selected by the Board at par. 42.

<sup>11</sup> "Included" means the information is either consolidated or disclosed.

- b. Majority Ownership Interest
- c. Control with Risk of Loss or Expectation of Benefit

**IN THE BUDGET**

22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials*<sup>12</sup> schedule that provides budget account level information~~schedule entitled “Federal Programs by Agency and Account”<sup>13</sup>~~ should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.<sup>14</sup> An organization listed in the budget is a non-federal organization receiving federal financial assistance if it is:

- a. a state, local or territorial government, or component thereof, or
- b. a not-for-profit organization.~~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~~

23. Notwithstanding the above provision regarding non-federal organizations listed in the budget, any entity meeting either of the next two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) should be included in the government-wide GPFFR.

**MAJORITY OWNERSHIP INTEREST**

24. The federal government (directly or through its components) may have an ownership interest<sup>15</sup> 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.

<sup>12</sup> In FY 2015, the schedule was entitled “*Federal Budget by Agency and Account*.”

<sup>13</sup> The Budget presents information in various forms for different purposes. Only the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule that provides budget account level information should be used for determining how information about an entity should be included in the government-wide GPFFR.

<sup>14</sup> This Statement adopts the definition of “federal financial assistance” established in the Single Audit Act Amendments of 1996. However, an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance. 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. For the purposes of these standards, ‘other assistance’ includes federally-authorized support fees and other charges even if legislation granting authority to collect them indicates that the fees or other charges are not considered public monies of the United States.

<sup>15</sup> “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Handbook as of June 30, 2012--Glossary.*

**Comment [ML10]:** Board agreed to changes to In the Budget at March 2014 meeting. See Minutes page 8-9 and 24

**Comment [ML11]:** Name of schedule changed from “Federal Programs by Agency and Account” to “Federal Budget by Agency and Account.” This is first change since 1990. However, there had been changes before then. While OMB staff does not foresee another change and believes the new title to be more accurate, staff believes describing the schedule may be a safer route and footnoting the title.

25. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets<sup>16</sup> 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.<sup>17</sup>

#### CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

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

**Comment [ML12]:** To be consistent with language in par. 24

**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.<sup>18</sup> **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.”

27. 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 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.
28. 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.
29. 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 **state or** foreign government.

**Comment [ML13]:** Issue was raised by the AGA at the PH and Showalter requested that it be addressed as well. The issue raised was that control paragraph 27 and 28 may indicate the federal government’s authority to determine and influence the policies governing activities might be interpreted by some to require that financial information from certain states to be included in the GPFFR.

#### Indicators of Control

<sup>16</sup> For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

<sup>17</sup> 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.

<sup>18</sup> 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.

30. 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.
31. 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,<sup>19</sup> 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.
32. 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 the liquidation of 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;

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<sup>19</sup> Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) 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 32 or another indicator in this paragraph.

- 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***

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- 33. 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.
- 34. 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.
- 35. 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**

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- 36. There may be instances when an organization does not meet the inclusion principles in paragraphs 22 through 35 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.<sup>20</sup>
- 37. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

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<sup>20</sup> Although such situations would be rare, this Statement provides for situations that may arise.

## REPORTING ON ORGANIZATIONS—CONSOLIDATION ENTITIES OR DISCLOSURE ENTITIES

38. The principles above should be used to assess what organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure entities” as that distinction determines 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 financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis.<sup>21</sup> Note, however, not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole.

**Comment [ML14]:** To be clear the assessment is based on the assessment of all the attributes. As such, not all attributes are required to be met; classification is based on the assessment as a whole.

### CONSOLIDATION ENTITIES

39. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment<sup>22</sup> of the following characteristics as a whole, the organization is:
- financed through taxes, and other non-exchange revenues.
  - governed by the Congress and/or the President.
  - imposing or may impose risks and rewards to the federal government.
  - providing goods and services on a non-market basis.
40. While greater judgment will be needed to classify other organizations. ~~Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), generally are presumed to would~~ qualify as consolidation entities. while greater judgment will be needed to classify other organizations.
41. 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/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.
- 41-42. Entities, for which the relationship with the federal government is not expected to be permanent, such as receiverships, conservatorships, and other intervention actions, would be less likely to meet these characteristics as a whole. Such entities generally would not be classified as consolidation entities.

**Comment [ML15]:** Board agreed to add this to Consolidation Entity section in conjunction w Temporary issue at March board meeting. See March minutes pages 9-15 and 24.

<sup>21</sup> 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 providing such goods or services.

<sup>22</sup> As discussed in paragraph 38, not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole.

DISCLOSURE **ENTITIES**

42-43. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations 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 organizations in **receivership conservatorship or other intervention activities. Under such actions, the relationship with the federal government is not expected to be permanent and such entities would be more likely to meet these characteristics as a whole.** To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter, these organizations are referred to as “disclosure **entities.**”

**Comment [ML16]:** Board agreed to add this to Disclosure Entity section in conjunction w Temporary issue at March board meeting. See March minutes 9-15 and 24. Staff edited this to be parallel to par. 42.

43-44. 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.

44-45. Disclosure **entities** receive limited or no funding from general tax revenues. 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 federal government. 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.<sup>23</sup>

45-46. Disclosure **entities** may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. **As noted above, in some cases, the relationship with the federal government is not expected to be permanent. The following disclosure entity types, while not inclusive of all the types,** are presented to assist in identifying organizations 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.

**Comment [ML17]:** Edit to acknowledge there may be other types

**Quasi-Governmental and/or Financially Independent Organizations**

47. Quasi-Governmental and/or Financially Independent Organizations have relationships with the federal government that are not temporary. **Such relationships may be considered long term when compared to the disclosure entities or even permanent. Quasi-Governmental and Financially Independent Organizations but differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure-entities are on a continuum. Classification of these entities that** considers such factors as:

**Comment [ML18]:** Mr. McCall requested that language be added to recognize this type of disclosure entity could be other than temporary, Board agreed at the March 2014 meeting. (for example, FRS is not temporary and he believed there was an emphasis on the notion of temporary with disclosure entities. See March Minutes page 75.

- a. whether the governance is through **appointed** officials **appointed for terms aligning with the appointing official** versus **longer-term appointments or other** governance structures **that vests most decision-making authorities in a governing body intended to insulate the organization from political influence;**

<sup>23</sup> 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.

b. whether the organization is financed primarily through taxes and other non-exchange revenues versus limited or no such financing; and

a-c. whether it provides goods and services on a non-market basis versus provides goods and services on a market basis.

46-48. 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

47-49. 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

48-50. Not all organizations of a given type will meet the characteristics above. Examples of the types of organizations that could be ~~consolidation entities or could be~~ quasi-governmental and/or financially independent organizations are **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each organization should be assessed objectively since there are likely to be differences among the organizations within these example types such that some should be consolidation entities and others disclosure entities.

**Comment [ML19]:** Consolidation entities should not be compared against financially independent org. It is properly compared against disclosure entities in last sentence.

### **Receiverships and Conservatorships<sup>24</sup>**

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~~49-51.~~ 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.<sup>25</sup> Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure **entities**.

### **Federal Government Intervention Actions Resulting in Control or Ownership**

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~~50-52.~~ 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.

~~54-53.~~ 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.

~~52-54.~~ 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.

~~53-55.~~ 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**.

### **IDENTIFYING ORGANIZATIONS COMPONENT REPORTING ENTITIES ARE ACCOUNTABLE FOR**

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~~54-56.~~ The government-wide reporting entity is the only federal reporting entity that is an independent economic entity<sup>26</sup> and the inclusion principles are expressed from the

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<sup>24</sup> This type differs slightly from federal **government** intervention **actions**. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

<sup>25</sup> 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."

<sup>26</sup> SFFAC 2, par. 38.

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

~~55-57.~~ A component reporting entity's GPFFR should include all organizations that would allow the Congress and/or the President to hold the component reporting entity's 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 entities<sup>27</sup> and disclosure entities administratively assigned to it.

~~56-58.~~ Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:<sup>28</sup>

- 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

~~57-59.~~ Consolidation entities 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 that provides budget account level information,~~<sup>29</sup> ~~entitled "Federal Programs by Agency and Account"~~ and
- b. all disclosure entities included within its congressional budget justification.<sup>30</sup>

<sup>27</sup> A ~~component reporting consolidation~~ entity comprises all consolidation entities administratively assigned to it and should present information about disclosure entities organizations assigned to it.

<sup>28</sup> 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.

<sup>29</sup> ~~In FY 2015, the schedule was entitled "Federal Budget by Agency and Account."~~

<sup>30</sup> A congressional budget justification is a document submitted annually to Congress to justify an organization's budget request.

## ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

~~58-60.~~ Consolidation entities and disclosure **entities** for which a component reporting entity has been assigned accountability responsibilities should be included in the GPFFR of that entity. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators<sup>31</sup> 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**.<sup>32</sup>
- b. An organization is included in the component reporting entity's published organization chart.
- c. The component reporting entity acquires and/or monitors<sup>33</sup> ownership interests in organizations where there are ongoing responsibilities<sup>34</sup> 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 organization<sup>35</sup> 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,

**Comment [GAO20]:** Footnote 32 was deleted as it did not appear needed—while the Census Bureau is established within the DOC—it would first meet In the Budget principle and generally qualify as a consolidation entity. Therefore, one would not need to go to this level to determine the administrative assignment.

<sup>31</sup>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.

<sup>32</sup>~~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.~~

<sup>33</sup> Such responsibilities may be assigned to a program office.

<sup>34</sup> 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.

<sup>35</sup> Where control exists at the government-wide level based on paragraphs **26-35**.

- v. monitors organizational performance,
- vi. approves budgets, operating plans, or contracts with others,
- vii. establishes and executes cooperative agreements with the organization,
- viii. administers federal grants to or contracts with the organization,
- ix. testifies before Congress regarding organization performance and objectives, or
- x. has significant financial transactions or balances that indicate ongoing managerial involvement.

59-61. 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.<sup>36</sup> The component reporting entity assigned the largest share<sup>37</sup> of responsibilities described in paragraph 60 generally should include the consolidation entity.

60-62. 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 **or receiving funds from** the disclosure **entity** or (b) with which its mission most closely aligns.

**Comment [ML21]:** Edit to ensure organizations that may not be clearly assigned (such as the Federal Reserve) "transferring funds to or from" would more clearly cover these instances.

#### MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

64-63. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 59-62 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.<sup>38</sup>

62-64. There may be instances **where** the principles in paragraphs 59-62 **are met in form but not substance so that consolidation at the component reporting entity level** would result in misleading presentation for the component reporting entity. **For example, an organization may have been legally established within a larger organization 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

**Comment [ML22]:** The language for the misleading to include and basis for conclusion (see starting at A61) was agreed upon at the April board meeting. See Minutes page 13 -14 and 32.

<sup>36</sup> 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.

<sup>37</sup> Largest share as used here is based on the most significant administrative role.

may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

~~63-65.~~ Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples<sup>39</sup> of indicators that it may be misleading to include an organization are:

- a. The budget submission is combined ~~or executed for procedural purposes only, prior to submission but is not jointly developed or executed,~~ as indicated by:
  - i. the budget request not being directly approved by component reporting entity management, or
  - ii. the absence of significant involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
- b. The component reporting entity provides little or no direct oversight of the organization.
- ~~c. The organization's funding is separate from the component reporting entity's funding.~~
- ~~d. c. The consolidated cost information would be 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-operates~~ itself as a stand-alone organization (either since its inception or for a long history) ~~and -and~~ has routinely prepared annual audited financial statements ~~since that time and has~~
- ~~f. d. The organization provides submitted~~ financial data directly to the Department of the Treasury for the government-wide GPFFR.

**Comment [ML23]:** PBGC suggested an edit because it receives a separate apportionment which is not subject to allotment by the component reporting entity. Expanding this to include execution should cover situation.

**Comment [ML24]:** Deleted item, seemed redundant after expanding previous item

## GPFFR CONSOLIDATION AND DISCLOSURE

### CONSOLIDATION ENTITIES

~~64-66.~~ Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position<sup>40</sup> of the federal government and the cost of operations financed by taxes and other non-exchange revenue.

<sup>39</sup> The indicators listed in 65 a. – d. 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.

<sup>40</sup> 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).

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Component reporting entities should consolidate the financial information for all consolidation entities administratively assigned to them. Consolidation<sup>41</sup> aggregates the individual financial amounts of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

~~65-67.~~ Consolidation entities as defined herein are considered federal reporting 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.

~~66-68.~~ SFFAS 34 recognizes that a limited number of federal reporting 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 reporting entity or a consolidated component reporting entity) ~~should~~ **may** 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 organizations. ~~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.~~

**Comment [ML25]:** After following up on the process at the component reporting level, it was determined that certain entities convert and the results are meaningful. For example, certain Treasury bureaus convert and this allows presentation of all imputed costs (e.g., pension and OPEB) and all budgetary resources.

**Comment [ML26]:** Board agreed to drop requirement for intra-govt note disclosure and Bfc explanation at Dec 2013 meeting. See Dec minutes pages 57-58 and 67.

## REPORTING ON DISCLOSURE ENTITIES

~~67-69.~~ Maintaining a distinction between the finances of consolidation entities and disclosure **entities** will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about disclosure **entities** rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although disclosure **entities** are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

~~68-70.~~ For those organizations classified as disclosure **entities**, the preparer should exercise judgment in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure **entities** should be disclosed in

<sup>41</sup> 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.

accordance with **Disclosure Requirements** as detailed in par. 72 to 75 below after considering the factors listed in par. 71.

### Factors in Determining Disclosures

71. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure entities. Beyond materiality, the following factors<sup>42</sup> 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 reporting 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.
- 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 organization views/perspective** – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization 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 GPFRRs 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.

**Comment [ML27]:** Board voted to remove the Disclosure entity views perspective at the March 2014 meeting. See minutes pages 19-20 and 24. Members requested it be addressed in the BFC, see paragraph A77

### Disclosure Requirements

<sup>42</sup> The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

~~70-72.~~ In addition to the factors presented in par. ~~71~~ 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.

~~74-73.~~ 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~~.

~~72-74.~~ For each significant disclosure ~~entity~~ and aggregation of disclosure ~~entities~~, information should be disclosed to meet the following objectives:<sup>43</sup>

- a. **Relationship and Organization**: The nature of the federal government's relationship with the disclosure ~~entity(ies)~~
- 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~~

~~73-75.~~ 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.<sup>44</sup> ~~The examples are provided to assist in determining the types of information that would meet the objectives. No individual example is itself a required disclosure and the examples are not required in the aggregate. The examples should not be considered alternatives or substitutes for one another or essential for meeting an objective in paragraph 74. Rather, disclosures that meet the objectives in paragraph 74 should be provided.~~ In determining what information is needed to meet the objectives in paragraph ~~74~~, the factors in paragraph ~~71~~, 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.

**Comment [GAO28]:** Based on comments the standard should be clearer the information in par. 75 are **examples versus requirements** – staff drafted language and the board approved it at the March 2014 meeting. See March minutes pages 18-21 and page 24. This also resulted in deleting footnote 44.

<sup>43</sup> The objectives are not listed in any order of preference.

<sup>44</sup> ~~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 72 should be provided.~~

- a. The name and description of the disclosure entity,<sup>45</sup> 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
- 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 reporting 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 organization 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

<sup>45</sup> For simplicity, information is described in relation to a single disclosure ~~organization~~ entity. Nonetheless, the information may be presented for an aggregation of similar disclosure entities ~~organizations~~.

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

~~74-76.~~ Any disclosure entity's financial information presented in the reporting entity's 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.<sup>46</sup> This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

~~75-77.~~ 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.

~~76-78.~~ 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*.

#### MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM<sup>47</sup>

~~77-79.~~ The following information regarding the central banking system should be disclosed<sup>48</sup> in the government-wide GPFFR ~~and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:~~

- a. Description of the central bank, 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 central bank including relevant information regarding governance structure with particular

<sup>46</sup> 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*.

<sup>47</sup> Central banking system functions are currently carried out by the Federal Reserve System (FRS). -The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. ~~-(The Bureau was established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.)-Note that law provides that the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System.~~

<sup>48</sup> Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

**Comment [ML29]:** March 2014, board agreed to maintain minimum disclosures as well as specific changes below and that overall disclosures should be consistent with disclosure entity examples . See minutes pages 72-84

**Comment [GAO30]:** FN 47 edit based on FRS comment letter.

**Comment [ML31]:** Used language from 74a but changed reference to central bank

**Comment [ML32]:** Used language from 74b but changed reference to central bank and dropped the specific items i, ii, and iii because it seemed as if didn't relate or overkill.

emphasis on matters affecting its independence and insulation from political influence

- a. ~~Governance structure with particular emphasis on matters affecting its independence and insulation from political influence~~
- b. ~~Significant roles and responsibilities (and how these relate to federal policy objectives)~~
- c. A discussion of the significance and magnitude of significant financial actions, and changes in those actions, reported during the year undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
- 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 central bank and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided) ~~Amounts of significant types of transactions and balances between the central banking system and the reporting entity~~
- e. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the central bank, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.) ~~A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations~~
- f. Information regarding the availability of the central bank's annual financial report and how it can be obtained ~~The availability of annual financial reports and how they can be obtained~~

**Comment [ML33]:** Board agreed to specific wording in the March 2014 meeting, see minutes page 78

**Comment [ML34]:** Used language from 74d but changed reference to central bank

**Comment [ML35]:** Used language from 74i but changed reference to central bank

**Comment [ML36]:** Used language from 74f but changed reference to central bank

## RELATED PARTIES

~~78-80.~~ In addition to organizations for which the Congress and/or the President are accountable,<sup>49</sup> 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.<sup>50</sup> Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.

<sup>49</sup> 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 entity or disclosure entity organization and not be subject to related party reporting.

<sup>50</sup> Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

~~79-81.~~ Related parties: Organizations are considered to be related parties if the existing relationship<sup>51</sup> or one party to the existing relationship has the ability to exercise significant influence over the other party's ~~in making policy financial and operating decisions.~~

**Comment [ML37]:** Dacey request to edit because sentence was awkward

~~80-82.~~ Significant influence (for the purpose of this Statement) is the power to participate in the 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.

**Comment [ML38]:** Board agreed to make the conforming changes at the April meeting. See minutes page 20 and 32.

~~84-83.~~ 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.

~~82-84.~~ Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government 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.

~~83-85.~~ Related parties *generally* would include (see paragraph **86** 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, ~~certain~~ multi-lateral development banks)

**Comment [ML39]:** Board agreed to change at April meeting see minutes page 19 and 32

~~84-86.~~ In the context of this Statement, the following generally would not be considered related parties:<sup>52</sup>

- a. Organizations 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 organizations<sup>53</sup>
- c. ~~Key executives of the federal government and organizations owned or managed by full-time employees of the federal government, full-time employees of the federal~~

**Comment [GAO40]:** Staff edit to remove based on previous board discussion that "collegial" may be confusing or unusual terminology that may be unclear when considering potential confusion about the status of broader relationships with colleges/universities.

<sup>51</sup> Relationship as used in this context refers to material transactions or events involving both parties.

<sup>52</sup> ~~As described in paragraph 87, the following are identified as potential exclusions but judgment will be required to determine whether some pose risks that warrant disclosures.~~

<sup>53</sup> However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

~~government, other employees of the federal government, or members of their immediate families, and full-time employees of the federal government~~

- 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 groups<sup>54</sup>

**Comment [ML41]:** See April 2014 meeting minutes (pages 23 and 24) the Board agreed that special government employees serving on federal boards— although also subject to conflict of interest rules and disclosures – (and the organizations they are employed by) should not be generally excluded from related party disclosures. Staff clarified that the exclusion is for organizations owned or managed by full-time federal employees or their families. BFC par. A98 & 99 also expands on the use of the term related parties.

~~85-87.~~ Although paragraph **86** 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 **88**.

~~86-88.~~ 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.

~~87-89.~~ 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 party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
- 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

~~88-90.~~ The purpose of this section of the Statement is to ~~propose-establish~~ conforming amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity*

<sup>54</sup> 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.

and Display, as described in the following paragraphs. 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.

~~89-91.~~ 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).

~~90-92.~~ 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.

~~94-93.~~ 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 that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

~~92-94.~~ Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.

~~93-95.~~ 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~~entity 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;

~~94-96.~~ 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 Federal Government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

**Comment [ML42]:** Editorial to be consistent with use of accountable in proposed standard.

~~95-97.~~ 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.

~~96-98.~~ 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."

~~97-99.~~ 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.

~~98-100.~~ 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.

~~99-101.~~ A new sub-heading "Need to Distinguish between Consolidation Entities and Disclosure Entities" is inserted at paragraph 53A.

~~100-102.~~ Insert Paragraphs 53A – 53 E under the sub-heading: "Need to Distinguish between Consolidation Entities and Disclosure Entities" - The ~~proposed~~ language provides a high level explanation of consolidation entities 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 organizations 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 entities 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 organizations 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 organizations that constitute 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.

~~404-103.~~ 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

~~402-104.~~ This Statement is effective for periods beginning after September 30, 201~~67~~. Earlier implementation is ~~encouraged~~not permitted.

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

**Comment [ML43]:** Agreed to delay effective date and not permit early implementation at April board meeting. See minutes page 28-30 and 32.

## APPENDIX A: BASIS FOR CONCLUSIONS

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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 GPFFRs.
- A2. GPFFRs 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. The task force played an important role in the research and survey work that led to the release of the *Reporting Entity Exposure Draft*. (See Appendix E for a list of task force members.)

### **Summary of Outreach Efforts**

A5. The *Exposure Draft (ED), Reporting Entity*, was issued on April 3, 2013 with comments requested by July 3, 2013.

A6. Upon release of the ED, notices and press releases were provided to the FASAB email listserv, the Federal Register, ~~t~~he Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network, and committees of professional

associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).

A7. This broad announcement was followed by direct mailings of the exposure draft to the following relevant congressional committees:

- a) Committee on Homeland Security and Governmental Affairs
- b) Committee on Banking, Housing, and Urban Affairs
- c) Committee on Rules and Administration
- d) House Committee on Science, Space, and Technology
- e) House Committee on Oversight and Government Reform
- f) House Committee on Financial Services

A8. Additional types of relevant organizations were contacted with direct mailings such as museums and performing art organizations, organizations that apply FASB GAAP, and intelligence agency organizations.

A9. Thirty-nine responses were received from preparers, auditors, professional associations, and citizens.

A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. Due to the complexity of the standard and the issues raised, it was deemed most efficient and appropriate to include the summary of the issues raised by respondents and disposition in the narrative relating to the Board's deliberation of the issue. The following paragraphs discuss issues identified by respondents that were not included with followed by Board decisions.

## ***Organizational Approach to Defining Boundaries***

### ***Underlying Concepts***

~~A4~~A11. The federal government is complex and therefore defining the boundary of GPFRRs 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.<sup>55</sup>

~~A5~~A12. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraphs 71 and 72 state "It may be said

<sup>55</sup> SFFAC 1, paragraph 8.

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.”

- | ~~A6-A13~~. 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.
- | ~~A7-A14~~. 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.<sup>56</sup>

### **Identifying and Classifying Organizations**

- | ~~A8-A15~~. 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**<sup>57</sup> are to be included<sup>58</sup> 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.
- | ~~A9-A16~~. 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.
- | ~~A10-A17~~. 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 included<sup>59</sup> 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’

**Comment [ML44]:** Changes to FN 57 is to be consistent with FN 10

<sup>56</sup> See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

<sup>57</sup> “Organization” **refers to the organization in its entirety including all funding sources (for example, appropriations or donations) for which the entity is accountable. It is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components. In certain instances, a specific program or “fund” may be subject to certain reporting requirements or have characteristics such that a GPFFR for the program or fund is needed. Examples may include the Highway Trust Fund or the General Fund. See SFFAC 2, par. 25—28.**

<sup>58</sup> “Included” means an organization’s information is either consolidated or disclosed.

<sup>59</sup> 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 GPPFR

#### In the Budget

**A18.** Identification of an organization in the President's Budget is the clearest evidence that an organization 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 GPPFR is by their participation in the budget process as evidenced by being listed in the schedule of the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account” that provides budget account level information.

#### Application to Legislative and Judicial Branches

~~A14-A19.~~ Although the legislative and judicial branches (and most organizations within those branches) ~~are not currently may not be~~ required to prepare financial statements, based on ~~this principle (the ‘In the Budget’ principle,)~~ those organizations would be reported upon in the government-wide report.<sup>60</sup> FASAB GAAP would be the appropriate accounting standards for those entities within the judicial and legislative branches that prepare GAAP-based financial statements. While this Statement does not require any entity to prepare and issue a GPPFR, it does enable federal reporting entities preparing and issuing GPPFRs in conformance with GAAP as defined by SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board, to determine what organizations should be included in reports.

**Comment [ML45]:** Dec 2013 meeting-Board agreed to footnote and additional Bfc wording to address the Legislative and Judicial Branch issue. See page 16 & 19 of Dec Board minutes. This also resulted in the deletion of footnote 60 below.

~~A12.~~ 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 that provides budget account level information “Federal Programs by Agency and Account” may not identify federal credit reform financing accounts, but those accounts should be included in the GPPFR for the organization.

**Comment [ML46]:** Board requested staff to add a sentence to tie back to SFFAS 34

#### Organizations Receiving Federal Financial Assistance

~~A13-A20.~~ The schedule of the Budget of the United States Government: Analytical Perspectives—Supplemental Materials that provides budget account level information 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

<sup>60</sup> ~~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.~~

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.

~~A14-A21.~~ 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.”

~~A15-A22.~~ ~~As Theexposed, the proposed-proposed~~ language attempted to ensure organizations that receive federal financial assistance<sup>61</sup> as defined by the Single Audit Act Amendments of 1996 but listed under an appropriation in the schedule of the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials that provides budget account level information entitled “Federal Programs by Agency and Account”* are not 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.

**Comment [GAO47]:** Footnote 61 revised to be consistent with standard and FN within the standard, see par. 22.

~~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.~~

A23. Although the number of organizations listed in the budget as receiving subsidies are few, respondents wondered (1) whether such organizations had to be subject to the requirements of the Single Audit Act to be considered, (2) whether federally authorized “support fees” would meet the definition of assistance, and (3) which listing within the budget should be an inclusion principle given this practice. Because of these questions, the wording was clarified to provide that such non-federal organizations would be state, local or territorial governments (or components thereof) or not-for profit organizations. In addition, the footnotes clarify that the exclusion is not limited to organizations subject to the Single Audit Act or to specific forms of financial assistance. Lastly, if an organization listed in the budget

<sup>61</sup> This Statement adopts the definition of “federal financial assistance” established in the Single Audit Act Amendments of 1996. However, an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance. As defined by the Single Audit Act Amendments of 1996, “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. For the purposes of these standards, “other assistance” includes federally-authorized support fees and other charges even if legislation granting authority to collect them indicates that the fees or other charges are not considered public monies of the United States.

is to be excluded it is because it is neither owned nor controlled as defined in these standards.

### **Organizations Partially in the Budget**

A24. 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 organizations~~ 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 entities 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 is either a consolidation entity or a disclosure entity and should be reported as one or the other, in its entirety. ~~Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.~~

~~A16-A25.~~ Certain respondents noted concern because donated funds are for specific purposes and are not available for general government use. They believed full consolidation may be misleading. However, entities receiving donations administer and are accountable for both appropriations and donated funds. Presently, the financial statements for museums receiving donations display consolidated totals along with separate columns for federal and donor funds. This presentation provides accountability for all funds under the entity's management while alerting the reader to restrictions. At the government-wide level, concern may be mitigated by similarly presenting donated funds as dedicated collections to the extent they meet this definition. For example, such reporting would reveal that donor funds are unavailable for general use by the government.

### **Need for Additional Principles**

~~A17-A26.~~ 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.

### **Majority Ownership Interest**

~~A18-A27.~~ 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

**Comment [ML48]:** Board agreed to changes to address Organizations partially in the budget at the April 2014 meeting. See minutes page Board also agreed to expand Footnote 9 to paragraph 13

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.

| ~~A19-A28~~. The Board noted that some may question 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

| ~~A20-A29~~. 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.

| ~~A24-A30~~. 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.

| ~~A22-A31~~. 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.

| ~~A23-A32~~. 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.

| ~~A24-A33~~. 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 organization to deliver goods and services.

#### Misleading to Exclude

| ~~A25~~. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. In developing the proposal, Certain some Board members

**Comment [ML49]:** The Board agreed to the BfC language to clarify Misleading to Exclude. See pages 13-14 and 19 of Dec 2013 minutes.

~~and respondents to the proposal~~ believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate ~~rare-unique~~ situations that may arise in the future. This is consistent with provisions of SFFAC 2- ~~and~~

~~A34. The Board also believes the provision is consistent with~~ the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*.

~~A26-A35. Requiring inclusion of an organization it would be misleading to exclude allows for judgment in It provides for those-unique situations not anticipated when the standards were developed. If it were feasible to anticipate such situations and develop criteria then there would be no need to provide for judgment. While there are concerns regarding possible unanticipated consequences, the Board believes the provision will be of benefit during the implementation period. If adjustments are needed, agencies may seek amendments to the standards as appropriate. Further, the Board also may consider whether the provision is necessary after implementation. 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.~~

**Comment [ML50]:** Dec 2013- Although the Board agreed to the BFC language, the Chairman requested staff to draft a sentence to address Mr. Dacey's concern. See page 14 of Dec. 2013 Board minutes.

### **Reporting on Organizations—Consolidation or Disclosure**

~~A27-A36.~~ 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~~. Consolidation entities ~~are subject to-should apply~~ the hierarchy of GAAP established for “federal ~~reporting~~ entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure ~~entities need not apply-are not subject to~~ the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

~~A28-A37.~~ Different means of presenting relevant information are provided for consolidation entities and disclosure ~~entities~~.<sup>62</sup> The distinction between consolidation entities and disclosure ~~entities~~ is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, 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 organization is more useful than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair

<sup>62</sup> 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.

presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

~~A29-A38~~. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure **entities**, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure **entity** might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C ~~of this exposure draft~~. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),<sup>63</sup> 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 [GAO51]:** FN 63 edit based on FRS comment letter

~~A30-A39~~. The role of preparers and auditors is to assess each organization against the principles in paragraphs **22 – 55** 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 explicitly address inclusion and classification (as a consolidation entity or disclosure **entity**) of the 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 banking system, 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.

~~A34-A40~~. 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 would consider the appropriate matters in making decisions. 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 entity or disclosure **entity**.

~~A32-A41~~. If the assessment of the FRS 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

<sup>63</sup> The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. ~~The Bureau was~~ established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. ~~); Note that law provides that the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System.~~ For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as well as assets for investments in non-federal organizations. 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.

~~A33-A42.~~ 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 the federal government. 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 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.

~~A34-A43.~~ The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities, and the need to maintain independence ~~in practices~~. Its responsibilities are broad reaching **and of great interest** because of the impact of monetary policy on the country ~~(government, businesses, and citizens) thereby leading to great interest in its activities~~. The magnitude of its role and transactions led the Board to ~~propose require~~ certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements ~~in the government-wide financial report and any reporting entity to which it may have been administratively assigned at the government-wide or component reporting entity levels~~. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated, and, depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

Comment [WP52]: Editorial.

#### Consolidation entities

~~A35-A44.~~ 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.

~~A36-A45.~~ Consolidation entities **generally** are financed through taxes and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the federal government for consolidation entities. Inclusion in the budget is the clearest

evidence an organization is relying on the taxpayer and that elected officials are key decision makers.

~~A37-A46~~. 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 generally~~ qualify as consolidation entities.

~~A38-A47~~. The assessment of whether an organization 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.

Disclosure **entities**

~~A39-A48~~. Disclosure **entities** receive limited or no funding from general tax revenues. 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 may be an effort to shield the federal government from risk.

~~A40-A49~~. 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** have a separate legal identity. **In some cases, the relationship with the federal government is not expected to be permanent.**

~~A41-A50~~. 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.

~~A42-A51~~. 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 **potential** disclosure **entities** include quasi-governmental and/or financially independent organizations, receiverships and conservatorships, and federal government intervention actions.

#### **Quasi-Governmental and/or Financially Independent Organizations**

~~A43-A52~~. The Statement describes quasi-governmental and/or financially independent organizations as those **disclosure entities** where governance and/or financial differences lead to greater independence. The Statement identifies both governance and financial characteristics that would be found in this type of **disclosure entity**.

~~A44-A53.~~ Quasi-governmental and/or financially independent organizations 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**

~~A45-A54.~~ 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 organizations **generally** would be disclosure **entities** and are not subject to the GAAP hierarchy for federal entities included in the GPFRR.

### **Federal Government Intervention Actions**

~~A46-A55.~~ 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.”

~~A47-A56.~~ 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, **or counties**, ~~or military occupation of another country~~.<sup>64</sup> These types of federal government interventions are considered rare.<sup>65</sup> Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.<sup>66</sup> Although the federal government may not act to maximize profits, the federal government may intervene and act in capacities to protect citizens. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

~~A48-A57.~~ 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.

<sup>64</sup> ~~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)~~

<sup>65</sup> 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)

<sup>66</sup> Congressional Research Service (CRS) Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

**Comment [ML53]:** Mr. Dacey requested the removal or additional explanation of the military intervention. His concern was it might imply that we had control over the other country and therefore include them in the GPFRR. [It had been included because previously we had a question on Iraqi reconstruction but now with principle-based standards that ought to deal with such hopefully rare cases the reference isn't needed. This also results in the deletion of FN 64.]

~~A49-A58.~~ 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” imply a time limit.

~~A50-A59.~~ 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 notes that~~ this “non-permanent” expectation ~~as a characteristic of disclosure entities would generally lead to the entities exhibiting more of the characteristics of a disclosure entity than of a consolidation entity. This is preferable to~~ ~~other than~~ relying on “temporary” or “fleeting” ~~which implies to avoid the implication that~~ a time limit could be established.

**Comment [WP54]:** To conform to the wording added regarding consideration of temporary within the standards section.

~~A54-A60.~~ A further implication the Board wishes to avoid is that organizations owned or controlled as a result of interventions are considered “federal entities.” The Statement recognizes that such interventions create a need for accountability but they do not make the disclosure ~~entities~~ arising from intervention actions “federal entities.” Hence, the Statement ~~proposes~~ ~~establishes~~ that disclosure ~~entities would~~ not be ~~subject~~ ~~required~~ to ~~apply~~ the GAAP hierarchy for federal entities.

### Component Reporting Entities

~~A52-A61.~~ 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 organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFRR. Further, classification as consolidation entities or disclosure ~~entities wsh~~ould be consistent in government-wide and component reporting entity GPFRRs. 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.

~~A53-A62.~~ Nonetheless, implementation of these principles ~~will~~ involve the component reporting entities because the government-wide report is ~~for the most part,~~ a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFRR all consolidation entities and disclosure ~~entities~~ for which they are accountable so that both the component reporting entity GPFRR and government-wide GPFRR are complete.

**Comment [ML55]:** Steinberg suggestion to address items that may not go into a component report - FRS

~~A54-A63.~~ The Board believes that component reporting entities should identify consolidation entities 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 (for example, appointed officials) are expected to be accountable.

~~A55-A64.~~ 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 entities and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs would be complete.

~~A56-A65.~~ 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

~~A57-A66.~~ Component reporting entities should develop processes to ensure they identify and include those consolidation entities and disclosure entities that are 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. ~~Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency. In rare cases, a component reporting entity may find that it would be misleading to include a consolidation entity that appears to be within the scope of their budget process or to have accountability established within the component reporting entity. While most respondents agreed with the proposal, several indicated a need for implementation guidance, especially regarding the misleading to include provision. In addition, there was some confusion about how the inclusion principles applied from the government-wide perspective relate to the administrative assignments at the component reporting entity level.~~

~~A67.~~ The Board does not intend to provide detailed administrative assignment implementation guidance at this time. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency. 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 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 as well as development of any needed implementation guidance.

~~A68.~~ Regarding the “misleading to include provisions,” the Board made editorial changes to clarify that they expect this to occur only in rare cases where the substance of relationships between consolidation entities differs from their form. For example, the Pension Benefit Guarantee Corporation (PBGC) is legally established within the Department of Labor. Nonetheless, PBGC has always operated as a separate legal entity with a mandate to fund its operations from premiums and has provided separate audited financial statements since its inception. Some believe that it would be misleading to consolidate PBGC and Department of Labor financial statements. In contrast, the misleading to include provision

**Comment [ML56]:** The language for the misleading to include and basis for conclusion (see starting at A61) was agreed upon at the April board meeting. See Minutes page 13 -14 and 32

**Comment [ML57]:** First sentence agreed to be removed at April meeting based on Granof comment, see Minutes page 14.

would not be an appropriate justification for excluding an office such as the Office of the Inspector General from the consolidated financial statements of its associated Department

**Comment [ML58]:** At the April Meeting, the Board requested a sentence be added to the BfC to address that OIG would not fall under Misleading to Include. See Minutes page 14 and 32.

A69. Also, some respondents questioned whether the misleading to include provision would be applicable to disclosure entities. It would not because disclosure entities would not be consolidated in the financial statements of the component reporting entity. Use of disclosures to explain the relationship would prevent misleading presentations about disclosure entities.

A70. During due process, some respondents questioned the difference between the inclusion principles and administrative assignments. The inclusion principles are to be applied from a government-wide perspective; whereas administrative assignments are determined from the component reporting entity perspective. Presently, under SFFAC 2, component reporting entities apply the conclusive and indicative criteria from their perspective as an individual government agency. In some cases, no individual government agency has direct involvement in the operations of entities that nonetheless are controlled through legislation established by and/or officials appointed by elected officials. Also, some ownership documents identify the federal government as owner rather than a particular government agency. To ensure that all owned or controlled entities are included, the inclusion principles must consider the relationship of an organization and the federal government as a whole.

A58-A71. Another key difference is that administrative assignments are assessed from the component reporting entity perspective. So, component reporting entities will need to adapt to a multi-step process involving varying perspectives (inclusion principles applied from a government-wide perspective and administrative assignments from the departmental perspective). Accordingly, coordination with the central agencies during the implementation process will be important.

### **GPFFR Consolidation and Disclosure**

A59-A72. 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 entities or disclosure entities.

A60-A73. 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**

A64-A74. 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 citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the activities financed by taxes and other non-exchange

revenue, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

~~A62-A75~~. 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 organizations 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**

~~A63-A76~~. **While FASAB is the appropriate source of GAAP for federal entities.** 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 organizations 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 reporting 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.

~~A64-A77~~. 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.<sup>67</sup> (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

~~A65-A78~~. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there **are may be** significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that

<sup>67</sup> 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.

aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger organizations may not be justifiable since conversion may not aid users.

~~A66-A79.~~ 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 organizations; 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-establishes~~ that amounts derived for component reporting entities in compliance with SFFAS 34 may be consolidated without adjustment.

~~A80.~~ 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.

~~A67-A81.~~ The Board initially proposed that activities measured in accordance with FASAB standards and amounts related to intragovernmental were required to be disclosed in the notes of component reporting entities to facilitate eliminations at the government-wide reporting level. However, after further consideration of the comments, the board determined this information may not be relevant for the component reporting entity GPFFRs and was more appropriately obtained in the Treasury closing package. Likewise, the budgetary reporting issues highlighted by respondents appeared to be a reconciliation and system issue that should be addressed in the Treasury Financial Manual instead of an accounting standard.

**Comment [ML59]:** Board agreed to drop requirement for intra-govt note disclosure and Bfc explanation at Dec 2013 meeting. See Dec minutes pages 57-58 and 67.

**Comment [ML60]:** Showalter wording suggestion

#### Disclosure Entities

~~A68-A82.~~ 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 organization 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 organizations having the characteristics of disclosure entities should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements.

~~A69-A83.~~ 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 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.<sup>68</sup>

~~A70-A84.~~ 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*

~~A74-A85.~~ Because of the flexibility needed regarding disclosures, preparers are provided a list of factors 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.

~~A72-A86.~~ 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. During due process, several respondents disagreed with the factor "Disclosure entity views/perspective" that provided for consideration and judgment of about how the disclosure entity views its relationship with the federal government. Most respondents did not believe this should influence the level of disclosures and noted that often the reporting entity would not be aware of the views. The Board recognized that there may be situations where, for example, whether the disclosure entity views itself as an extension of the federal government or as operationally independent of the Congress and/or the President should influence the type and extent of information that is disclosed. However, it may be difficult to state operationally how this would affect disclosures in given situations. Therefore, while the Board agrees this factor may be relevant, it nonetheless removed it from the Statement.

**Comment [ML61]:** Board voted to remove the Disclosure entity views perspective at the March 2014 meeting. See minutes pages 19-20 and 24. Members requested it be addressed in the BFC

### *Disclosure Requirements*

~~A73-A87.~~ The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information is listed as examples that may be disclosed to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure entity is 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. For example, one reporting entity may determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure entity type, such as receiverships, and yet another by class, such as museum.

<sup>68</sup> SFFAC 1, par. 156.

~~A74-A88~~. Further, 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. 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-A89~~. The Board believes any financial information about disclosure entities in the reporting entity's GPFFR should be based on accrual basis standards specific to the type of organization while minimizing additional costs on the disclosure entity. There will be instances where information about disclosure entities is produced for reporting periods that differ from the reporting entity's reporting period. To minimize additional costs, the Board agreed that if disclosure entities have a different reporting period than the reporting entity's GPFFR, disclosure of information from a reporting period ending within the 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-A90~~. 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 entities' audited financial statements and before the issuance of the reporting entity's audited financial statements for a later fiscal year-end. The Board notes this would only be necessary if ~~the~~ disclosure entities' 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-A91~~. 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-A92~~. 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 disclosure entities.<sup>69</sup> The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other

<sup>69</sup> As discussed in paragraph A43 about the Federal Reserve System, the magnitude of its role and transactions led the Board to propose certain minimum disclosures about the central banking system in paragraph 79 of the Statement. However, these are minimum disclosures and depending on the circumstances, some of the listed information may need to be disclosed due to other requirements. The disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive

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 Parties

~~A79-A93.~~ The Board determined it should define “related parties” and address them 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 ~~and that application would be inappropriate.~~

**Comment [ML62]:** Showalter suggestion

~~A94.~~ Because of the extent of the federal government’s relationships – whether already established or implied – “related parties” concepts may result in numerous relationships requiring disclosure. Therefore, the Board ~~proposes-requires~~ 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.

~~A80-A95.~~ In addition, the ~~proposal~~Statement 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. ~~While the standards identify potential exclusions that generally would not be related parties (and those that may) one must consider the many complex relationships where significant influence is exerted. Judgment will be required to determine which significant influences may pose risks that warrant disclosures and these standards do not preclude the reporting of a related party if factors deem it appropriate.~~ The related parties 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.

**Comment [ML63]:** The sentence preceding this was proposed to clarify this sentence based on Mr. Dacey’s comment that this sentence be clarified. This sentence was added due to comments that the exclusions should not prohibit something that is deemed to be a RP

~~A84.~~ Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains ~~but will not be considered related parties under federal standards~~<sup>70</sup>. ~~In reaching this conclusion,~~ the Board discussed ~~whether-how~~ jointly controlled component reporting entities ~~should disclose present~~ 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, ~~the decision to exclude these entities from related party reporting placed such information requirements outside the scope of this Statement they preferred that OMB explore options for additional guidance through Circular A-136, Financial Reporting Requirements, so that it is integrated with existing disclosure~~

<sup>70</sup> Therefore, intra-governmental transactions would not be considered related party transactions.

~~requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.~~

~~A82-A96. Proposed Amendments to SFFAC 2, Entity and Display~~

~~A97. During its due process, the Board considered a request that 'related parties' language be modified to clarify that members appointed to boards as individuals and the entities they are affiliated with are not in related party relationships with the departments or agencies. The Board did not believe additional language was necessary as the broad classes of exclusions provided were sufficient. Board members noted concern with broad exclusions of board members and organizations with which they are affiliated because there may be situations where disclosures would be appropriate. Further, current practices have provided meaningful and transparent information and the Board believes this information should continue to be provided absent a change in circumstances.~~

~~A98. The Board further understood the respondent's concern that the term 'related party,' commonly as commonly used in financial reports, may imply less than arms-length transactions. The Board believes once federal standards are issued, the term 'related parties' in the federal environment will develop its own unique meaning - that is, relationships of such significance to the reporting entity that it would be misleading to exclude information if one party to the existing relationship has the ability to exercise significant influence over the other party's policy decisions. There is a focus on exposures to risk of loss or potential gain as a result of the relationship. Additionally, the standards do not prevent an entity from referring to related parties as "Affiliated Institutions" or any other appropriately descriptive term. When doing so, it may be informative to explain the relationships by including information such as conflict of interest rules and other frameworks under which they operate.~~

~~A99. During due process, certain respondents asked for clarity regarding the difference between a disclosure entity and a related party. More specifically, the respondents had difficulty finding a distinction between the characteristics of a related party and those of a disclosure entity meeting the "misleading to exclude" inclusion principle. When considering whether the principles required clarity, the Board noted the key difference between related parties and included organizations is that related parties are not controlled or owned but are significantly influenced by or influencing the federal government. In considering whether an organization rises to "misleading to exclude" the Board believes this distinction between included organizations and related parties will be helpful. The Board did not believe there was a need to revise the standard.~~

~~A83-A100. The Board recognizes the difficulty in applying new standards to complex relationships. However, the Board believes the standard is clear. While there is a key change in the application of principles from the government-wide perspective, central agency coordination and guidance during the implementation process will aid users in adopting this perspective.~~

**Proposed Amendments to SFFAC 2, Entity and Display**

~~A84-A101. The Statement proposes-provides 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~~

**Comment [ML64]:** Board agreed to changes in this paragraph at April 2014 meeting to address concern from respondents. Also requested a fn be added to state intra-govt transactions are not related-party transactions. See April minutes pages 24-26 and 32

**Comment [GA065]:** See April 2014 meeting minutes (pages 23 and 24) the Board agreed that special government employees serving on federal boards— although also subject to conflict of interest rules and disclosures – (and the organizations they are employed by) should not be generally excluded from related party disclosures. Staff clarified par. 86 c and added this explanation to the BFC to further explain the issue that the exclusion is for organizations owned or managed by full-time federal employees or their families. BFC par. A98 & 99 also expands on the use of the term related parties.

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.

~~A85-A102.~~ Paragraphs 54—77 and 79 – 112 of SFFAC address concepts outside the scope of this Statement and are not amended.

~~A86-A103.~~ 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.

**A104.** Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (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 principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure **entities**—or to continue to exclude the organizations. 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.

#### **Other Unique Situations**

**A105.** As part of the exposure draft process, the Board also asked respondents if there were other unique situations that should be addressed within the Statement. The Board received input from respondents on several example organizations that they believed should be clarified in the Statement. The Board considered the suggestions against the goal to develop principles-based standards that could be applied to all organizations. The Board believes the standards are sufficiently clear. Therefore, the Board did not revise the proposed requirements in response to these unique circumstances.

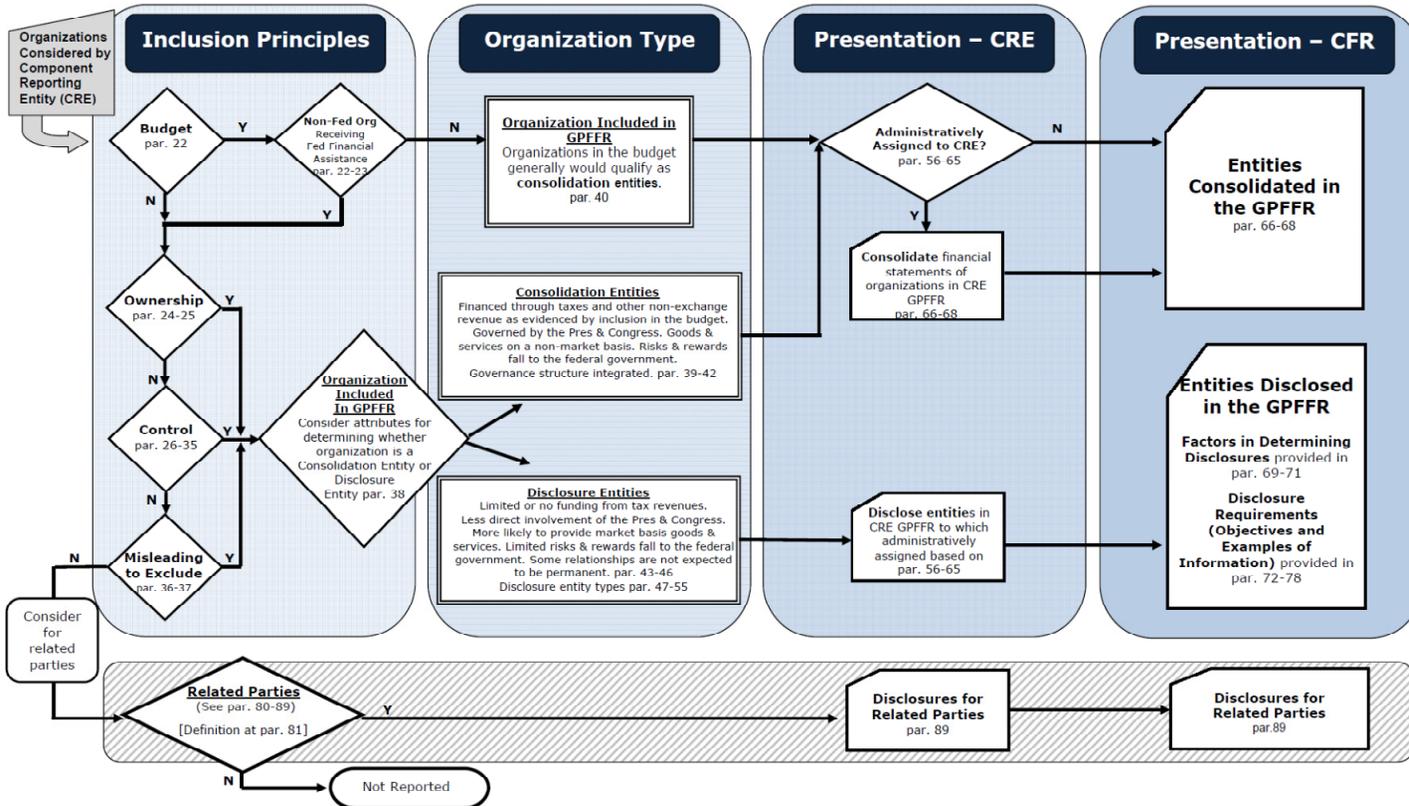
**Comment [ML66]:** April meeting, board agreed to included paragraph regarding consideration of examples. See Minutes page 30-32. Certain changes were made based on comments from Board members.

#### **Board Approval**

**A106.** This Statement was approved for issuance by X members of the Board. The written ballots are available for public inspection at the FASAB's offices.

APPENDIX B: FLOWCHART

FLOW CHART (Appendix B)



## APPENDIX C: ILLUSTRATIONS

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### *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 organizations.
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 organizations requires consideration of the circumstances specific to each organization 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 organization. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

## ABC Department

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(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 schedule](#) in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* ~~that provides budget account level information~~ [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 Entity or Disclosure [Entity](#)

Further, because it is listed in the budget, ABC ~~is presumed to~~ [generally would](#) 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 entities 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 [schedule](#) in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule [that provides budget account level information 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 organization 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 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 Entity or Disclosure Entity***

Further, because it is listed in the budget, Epsilon ~~is presumed to~~[generally would](#) 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/or 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 Entity 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 organization. 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. Tax revenue is not appropriated 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 federal government 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 GPFFR. If Sigma is also administratively assigned to other component reporting entities, then those component reporting entities should also consider the need to disclose information in their GPFFRs.

## **Scholars University**

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(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 [schedule](#) in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* [that provides budget account level information](#) ~~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 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 organization. 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 organization 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)***

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(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 [schedule in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials that provides budget account level information 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 GPFRR 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 Entity 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 taxes.
2. Federal government has 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 GPFRR.

## **Mediation Corporation**

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(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* ~~that provides budget account level -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 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 organization'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 GPFFR.

#### **Classification as a Consolidation Entity 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 taxes.
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. Federal government has 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 GPFFR.

### ***Bicycle America, Inc. (Scenario A)***

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(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 the 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)***

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(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 organization should be included in the government-wide GPFFR.

#### ***Classification as a Consolidation Entity 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 component reporting 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 **that provides budget account level information 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 GPFRR. 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 Entity 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 taxes.

2. The federal government has 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**

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(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 ~~that provides budget account level information 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 the 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***

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(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 organizations 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 schedule in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account” that provides budget account level information and the federal government does not have a majority ownership interest in the company.

Further, management conducted a thorough assessment of control indicators and determined 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)***

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(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 ~~that provides budget account level information, 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 Entity or Disclosure Entity***

Because it is listed in the budget, the Museum ~~is presumed to~~generally would 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 organization 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))

### ***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 organization 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 **that provides budget account level information 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 GPPFR 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 Entity 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, the 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 the 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 organization – 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 financing from taxes 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 federal government.

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***

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(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 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 Entity 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 tax revenues 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 GPFFR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule **that provides budget account level information 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 Entity 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 tax revenues 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 organizations 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 organizations.

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 ORGANIZATION INCLUDED? | A CONSOLIDATION ENTITY (CONSOLIDATED)   | A DISCLOSURE ENTITY (DISCLOSED)      |
| ABC Department               | Yes   |       |   |   | Yes                           | Organizations listed in the Budget <del>are presumed to be generally would qualify as</del> consolidation entities.             |                                      |
| Epsilon Corporation          | Yes   |       |   |   | Yes                           | Organizations listed in the Budget <del>are presumed to be generally would qualify as</del> 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 organization |
| 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- |                                      |

| 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 ORGANIZATION INCLUDED?   | A CONSOLIDATION ENTITY (CONSOLIDATED)  | A DISCLOSURE ENTITY (DISCLOSED)   |
|   |  |  |   |   |   | market basis, and federal government assume risk.  |   |
| <b>Mediation Corporation</b>              | 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 federal government. |
| <b>Bicycle America, Inc. (Scenario A)</b> | 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. |  |   |
| <b>Bicycle America, Inc. (Scenario B)</b> | No   | Yes, the federal government acquired 51% of the voting rights in BA. |   |   | Yes   |  | Intervention intended to be temporary   |
| <b>Chatham Laboratory (FFRDC)</b>         | 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 taxes, 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 ORGANIZATION 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 taxes 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 organization. |
| Firefighters'                       | No   | Ownership of | Yes. Agency 123 has significant  |   | Yes   | Yes. Taxes fund the  |   |

| NAME                                     | IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR? |  |  |                       |                               | CONSOLIDATION ENTITY OR DISCLOSURE <u>ENTITY</u> |   |
|--|--|--|--|-----------------------|-------------------------------|--|---|
|  | IN THE BUDGET  | OWNED  | CONTROL  | MISLEADING TO EXCLUDE | IS THE ORGANIZATION INCLUDED? | A CONSOLIDATION ENTITY (CONSOLIDATED)            | A DISCLOSURE <u>ENTITY</u> (DISCLOSED)  |
| <b>Housing Limited Partnership</b>       |  | property is retained.                        | authority to direct the limited partnership's activities and to affect day-to-day activities such as in design and construction and the partnership's purpose is to carry out federal missions and objectives. |                       |                               | housing and risks have been assumed              |   |
| <b>Blue Mountain Observatory (FFRDC)</b> | 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

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|        |  |
|--------|--|
| AICPA  | American Institute of Certified Public Accountants   |
| C.F.R. | Code of Federal Regulations                          |
| CFR    | Consolidated Financial Report of the U.S. Government |
| CRE    | Component Reporting Entity                           |
| CRS    | Congressional Research Service                       |
| ED     | Exposure Draft                                       |
| FAR    | Federal Acquisition Regulation                       |
| FASAB  | Federal Accounting Standards Advisory Board          |
| FASB   | Financial Accounting Standards Board                 |
| FDIC   | Federal Deposit Insurance Corporation                |
| FFRDC  | Federally Funded Research and Development Center     |
| FRS    | Federal Reserve System                               |
| GAAP   | Generally Accepted Accounting Principles             |
| GAO    | Government Accountability Office                     |
| GPFFR  | General Purpose Federal Financial Report             |
| OAI    | Other Accompanying Information                       |
| OIG    | Office of Inspector General                          |
| 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  |
| U.S.C. | United States Code                                   |

## APPENDIX E: TASK FORCE MEMBERS

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Owen Barwell, (formerly of) Department of Energy  
Lieutenant Colonel Richard Brady, USMC DOD  
Terry Bowie, (formerly of) NASA  
James L. Chan, University of Illinois at Chicago  
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  
Andrew Lewis, 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, (formerly of) 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

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**Component Reporting Entity** “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.<sup>71</sup> Examples of component reporting entities include organizations 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.<sup>72</sup>

**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.<sup>73</sup>

**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.<sup>74</sup> 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

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<sup>71</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>72</sup> Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

<sup>73</sup> 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.

<sup>74</sup> The Office of Federal Procurement Policy (OFPP) and Federal Acquisition Regulation (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.

(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.

**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.<sup>75</sup>

**Receivership** Receivership is the legal procedure for winding down the affairs of an insolvent institution.<sup>76</sup>

**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's ~~policy in making financial and operating~~ decisions.

**Reporting Entity** Reporting entities are organizations 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.

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.<sup>77</sup> 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.

<sup>75</sup> CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

<sup>76</sup> *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.

<sup>77</sup> 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

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# REPORTING ENTITY

**Statement of Federal Financial Accounting Standards 46**

September XX, 2014

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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](http://www.fasab.gov).

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## SUMMARY

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This Statement establishes principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFRRs). The principles guide financial reporting to 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 organization is or should be considered a federal agency for legal or political purposes. Rather, the principles guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFRR for financial accountability purposes.

The government-wide GPFRR 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 Statement establishes that an organization be included in the government-wide GPFRR 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, information regarding the organization is necessary to provide accountability.

The Statement provides for determining the most appropriate means—consolidated financial statements or disclosures—to include information about these organizations in GPFRRs. Determining the most appropriate means requires an assessment of the degree to which the following characteristics are met: the organization is financed by taxes or other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the federal government, 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.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations that are to a large degree financed by the taxpayer, governed by elected officials, imposing risks and rewards on the federal government, 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 GPFRR are referred to as “consolidation entities.” Consolidation entities should apply Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Some organizations that meet the principles for inclusion are to a large degree 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." Information about disclosure entities is needed for accountability purposes.

The Statement establishes that each component reporting entity's GPFFR include all organizations for which it is accountable. This includes all consolidation entities and disclosure entities administratively assigned to it. The GPFFR for the government-wide reporting entity would be a consolidation of component reporting entity GPFFRs including information regarding disclosure entities.

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 significant relationships with other parties. The Statement requires disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making policy 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 Statement is effective for periods beginning after September 30, 2017. Earlier implementation is not permitted.

## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>Summary</b> .....   | <b>1</b>  |
| <b>Introduction</b> .....  | <b>4</b>  |
| <b>Purpose</b> .....   | <b>4</b>  |
| <b>Materiality</b> .....   | <b>5</b>  |
| <b>Standards</b> .....   | <b>6</b>  |
| <b>Scope and Applicability</b> .....   | <b>6</b>  |
| <b>Definitions</b> .....   | <b>6</b>  |
| <b>Organizational Approach to Defining Boundaries</b> .....  | <b>7</b>  |
| <b>Principles for Inclusion in the Government-wide GPFFR</b> .....                                 | <b>8</b>  |
| In the Budget .....  | 9         |
| Majority Ownership Interest.....   | 9         |
| Control with Risk of Loss or Expectation of Benefit .....  | 10        |
| Misleading to Exclude.....   | 12        |
| <b>Reporting on Organizations—Consolidation Entities or Disclosure Organizations</b> .....         | <b>12</b> |
| Consolidation entities .....   | 13        |
| Disclosure organizations .....   | 13        |
| <b>Identifying Organizations Component Reporting Entities Are Accountable For</b> .....            | <b>16</b> |
| Scope of the Budget Process.....   | 17        |
| Accountability Established Within a Component Reporting Entity .....                               | 17        |
| Misleading to Exclude and / or Misleading to Include .....   | 19        |
| <b>GPFFR Consolidation and Disclosure</b> .....  | <b>20</b> |
| Consolidation entities .....   | 20        |
| Reporting on Disclosure organizations.....   | 21        |
| <b>Minimum Disclosures Regarding the Central Banking System</b> .....                              | <b>24</b> |
| <b>Related Parties</b> .....   | <b>25</b> |
| <b>Effect on Existing Concepts—Proposed Amendments to SFFAC 2, <i>Entity and Display</i></b> ..... | <b>27</b> |
| <b>Effective Date</b> .....  | <b>30</b> |
| <b>Appendix A: Basis for Conclusions</b> .....   | <b>31</b> |
| <b>Appendix B: Flowchart</b> .....   | <b>52</b> |
| <b>Appendix C: Illustrations</b> .....   | <b>53</b> |
| <b>Appendix D: Abbreviations</b> .....   | <b>84</b> |
| <b>Appendix E: Task Force Members</b> .....  | <b>85</b> |
| <b>Appendix F: Glossary</b> .....  | <b>86</b> |

## INTRODUCTION

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### PURPOSE

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1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**<sup>1</sup> (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** GPFFRs should allow the Congress and/or 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.<sup>2</sup> 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 meet federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such organizations are considered “consolidation entities” or “disclosure entities,”<sup>3</sup> 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. While not directly addressing the inclusion or classification of the components of the central banking system, the Statement does establish certain minimum disclosures regarding the central banking system.
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 disclosures

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

<sup>2</sup> 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 the FASB*, for more information regarding the hierarchy.

<sup>3</sup> “Consolidation entities” and “disclosure entities” are terms used to distinguish between entities based on the degrees to which the entity is (1) financed by taxes or other non-exchange revenue, (2) governed by the Congress and/ or the President, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a market or non-market basis. See par. 38 - 55 for more information.

required regarding the nature of the relationship and financial-related exposures to risk or potential gain through related parties.

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 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

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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.

## STANDARDS

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### SCOPE AND APPLICABILITY

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6. This Statement applies to federal reporting 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 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.<sup>4</sup>
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable federal reporting 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 federal reporting 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

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8. **Reporting Entity** Reporting entities are organizations 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.<sup>5</sup> 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.

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<sup>4</sup> SFFAS 34, par. 4, indicates FASAB GAAP would be the appropriate accounting standards for federal reporting entities within the executive, legislative, and judicial branches to adopt (footnote 4).

<sup>5</sup> 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.<sup>6</sup> Examples of component reporting entities include organizations 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 component 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.<sup>7</sup> See paragraphs 26 - 35 for full discussion.
  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's policy decisions.

## ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

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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 perspectives<sup>8</sup> for viewing the federal government, an organizational approach was established in SFFAC 2<sup>9</sup> as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations<sup>10</sup> 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

<sup>6</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>7</sup> 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.

<sup>8</sup> SFFAC 2, par. 13-28, discusses the organizational, budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

<sup>9</sup> SFFAC 2, par. 29-38.

<sup>10</sup> "Organization" refers to the organization in its entirety including all funding sources (for example, appropriations or donations) for which the entity is accountable. It is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

exclusion would cause the federal government’s financial statements to be misleading or incomplete.

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 federal financial 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 20) and then distinguishes between consolidation entities and disclosure entities (see Reporting on Organizations—Consolidation Entities or Disclosure Entities beginning with paragraph 38).
16. This Statement also establishes that component reporting entities’ GPFFRs must include all consolidation entities and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Identifying Organizations Component Reporting Entities Are Accountable For beginning with paragraph 56).
17. The Statement provides guidance for how to report on consolidation entities and disclosure entities (see GPFFR Consolidation and Disclosure beginning with paragraph 66).
18. The Statement establishes minimum disclosure requirements regarding the central banking system (see paragraph 79).
19. 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 Parties beginning with paragraph 80).

## PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

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20. This Statement provides three principles for determining which organizations should be included<sup>11</sup> in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 37). The three principles are to be applied without considering whether the relationship is temporary or permanent. However, whether the relationship is temporary or permanent would influence the likelihood that the entity exhibits to a greater degree the characteristics of a consolidation entity or of a disclosure entity.
21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:
  - a. In the Budget

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<sup>11</sup> "Included" means the information is either consolidated or disclosed.

- b. Majority Ownership Interest
- c. Control with Risk of Loss or Expectation of Benefit

## IN THE BUDGET

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22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials*<sup>12</sup> schedule that provides budget account level information<sup>13</sup> should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.<sup>14</sup> An organization listed in the budget is a non-federal organization receiving federal financial assistance if it is:

- a. a state, local or territorial government, or component thereof, or
- b. a not-for-profit organization.

23. Notwithstanding the above provision regarding non-federal organizations listed in the budget, any entity meeting either of the next two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) should be included in the government-wide GPFFR.

## MAJORITY OWNERSHIP INTEREST

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24. The federal government (directly or through its components) may have an ownership interest<sup>15</sup> 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.

25. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets<sup>16</sup> of an organization. When the federal government (directly or through its

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<sup>12</sup> In FY 2015, the schedule was entitled “*Federal Budget by Agency and Account*.”

<sup>13</sup> The Budget presents information in various forms for different purposes. Only the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule that provides budget account level information should be used for determining how information about an entity should be included in the government-wide GPFFR.

<sup>14</sup> This Statement adopts the definition of “federal financial assistance” established in the Single Audit Act Amendments of 1996. However, an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance. 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. For the purposes of these standards, ‘other assistance’ includes federally-authorized support fees and other charges even if legislation granting authority to collect them indicates that the fees or other charges are not considered public monies of the United States.

<sup>15</sup> “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Handbook as of June 30, 2012--Glossary*.

<sup>16</sup> For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

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.<sup>17</sup>

## CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

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26. An organization that is controlled by the federal government with risk of loss or expectation of benefit should be included as either a consolidation entity or disclosure entity 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.<sup>18</sup> 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.”

27. 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 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.
28. 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.
29. 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 state or foreign government.

### *Indicators of Control*

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30. 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

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<sup>17</sup> 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.

<sup>18</sup> 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.

government and the organization and judgment applied to determine whether control exists.

31. 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,<sup>19</sup> 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.
  
32. 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 the liquidation of 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;

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<sup>19</sup> Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) 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 32 or another indicator in this paragraph.

- 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***

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- 33. 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.
- 34. 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.
- 35. 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**

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- 36. There may be instances when an organization does not meet the inclusion principles in paragraphs 22 through 35 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.<sup>20</sup>
- 37. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

## **REPORTING ON ORGANIZATIONS—CONSOLIDATION ENTITIES OR DISCLOSURE ENTITIES**

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<sup>20</sup> Although such situations would be rare, this Statement provides for situations that may arise.

38. The principles above should be used to assess what organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure entities” as that distinction determines 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 financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis.<sup>21</sup> Note, however, not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole.

## CONSOLIDATION ENTITIES

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39. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment<sup>22</sup> of the following characteristics as a whole, the organization is:
- a. financed through taxes, and other non-exchange revenues.
  - b. governed by the Congress and/or the President.
  - c. imposing or may impose risks and rewards to the federal government.
  - d. providing goods and services on a non-market basis.
40. While greater judgment will be needed to classify other organizations, organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par [22](#)), generally would qualify as consolidation entities..
41. 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/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.
42. Entities for which the relationship with the federal government is not expected to be permanent, such as receiverships, conservatorships, and other intervention actions, would be less likely to meet these characteristics as a whole. Such entities generally would not be classified as consolidation entities.

## DISCLOSURE ENTITIES

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<sup>21</sup> 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 providing such goods or services.

<sup>22</sup> As discussed in paragraph [38](#), not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole.

43. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations 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 organizations in **receivership** conservatorship or other intervention activities. Under such actions, the relationship with the federal government is not expected to be permanent and such entities would be more likely to meet these characteristics as a whole. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter; these organizations are referred to as “disclosure entities.”
44. 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.
45. Disclosure entities receive limited or no funding from general tax revenues. 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 federal government. 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.<sup>23</sup>
46. Disclosure entities may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. As noted above, in some cases, the relationship with the federal government is not expected to be permanent. The following disclosure entity types, while not inclusive of all the types, are presented to assist in identifying organizations 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 Organizations***

47. Quasi-Governmental and/or Financially Independent Organizations have relationships with the federal government that are not temporary. Such relationships may be considered long term when compared to the disclosure entities or even permanent. Quasi-Governmental and Financially Independent Organizations differ with regard to governance and/or financial arrangements. Such entities are on a continuum. Classification of these entities considers such factors as:
- a. whether the governance is through officials appointed for terms aligning with the appointing official versus longer-term appointments or other governance structures intended to insulate the organization from political influence;
  - b. whether the organization is financed primarily through taxes and other non-exchange revenues versus limited or no such financing; and

<sup>23</sup> 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.

- c. whether it provides goods and services on a non-market basis versus provides goods and services on a market basis.
48. 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
49. 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
50. Not all organizations of a given type will meet the characteristics above. Examples of the types of organizations that could be quasi-governmental and/or financially independent organizations are **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each organization should be assessed objectively since there are likely to be differences among the organizations within these example types such that some should be consolidation entities and others disclosure entities.

### *Receiverships and Conservatorships*<sup>24</sup>

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<sup>24</sup> This type differs slightly from federal government intervention actions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

51. 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.<sup>25</sup> Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure entities.

### ***Federal Government Intervention Actions Resulting in Control or Ownership***

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52. 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.
53. 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.
54. 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.
55. 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.

### **IDENTIFYING ORGANIZATIONS COMPONENT REPORTING ENTITIES ARE ACCOUNTABLE FOR**

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56. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity<sup>26</sup> 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. Therefore, component reporting entities must identify and include in their GPFFRs all consolidation entities and disclosure entities for which they are accountable so that both the component reporting entity GPFFRs and government-wide GPFFR are complete.

<sup>25</sup> 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."

<sup>26</sup> SFFAC 2, par. 38.

57. A component reporting entity's GPFRR should include all organizations that would allow the Congress and/or the President to hold the component reporting entity's 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 entities<sup>27</sup> and disclosure entities administratively assigned to it.
58. Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:<sup>28</sup>
- 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

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59. Consolidation entities 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 GPFRR. 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* that provides budget account level information,<sup>29</sup> and
  - b. all disclosure entities included within its congressional budget justification.<sup>30</sup>

#### ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

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

<sup>27</sup> A consolidation entity comprises all consolidation entities administratively assigned to it and should present information about disclosure entities assigned to it.

<sup>28</sup> 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.

<sup>29</sup> In FY 2015, the schedule was entitled "Federal Budget by Agency and Account."

<sup>30</sup> A congressional budget justification is a document submitted annually to Congress to justify an organization's budget request.

professional judgment. Indicators<sup>31</sup> 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.
- b. An organization is included in the component reporting entity's published organization chart.
- c. The component reporting entity acquires and/or monitors<sup>32</sup> ownership interests in organizations where there are ongoing responsibilities<sup>33</sup> 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 organization<sup>34</sup> 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,
  - viii. administers federal grants to or contracts with the organization,

<sup>31</sup> 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.

<sup>32</sup> Such responsibilities may be assigned to a program office.

<sup>33</sup> 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.

<sup>34</sup> Where control exists at the government-wide level based on paragraphs 26-35.

- ix. testifies before Congress regarding organization performance and objectives, or
  - x. has significant financial transactions or balances that indicate ongoing managerial involvement.
61. 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 GPFRR of each component reporting entity assigned such responsibilities.
  - b. Consolidation entities should be administratively assigned to only one component reporting entity.<sup>35</sup> The component reporting entity assigned the largest share<sup>36</sup> of responsibilities described in paragraph 60 generally should include the consolidation entity.
62. 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 or receiving funds from the disclosure entity or (b) with which its mission most closely aligns.

#### MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

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63. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 59-62 yet the component reporting entity GPFRR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFRR.<sup>37</sup>
64. There may be instances where the principles in paragraphs 59-62 are met in form but not substance so that consolidation at the component reporting entity level would result in misleading presentation for the component reporting entity. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFRR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.
65. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of

<sup>35</sup> 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.

<sup>36</sup> Largest share as used here is based on the most significant administrative role.

professional judgment. Examples<sup>38</sup> of indicators that it may be misleading to include an organization are:

- a. The budget submission is combined prior to submission but is not jointly developed or executed, as indicated by:
  - i. the budget request not being directly approved by component reporting entity management, or
  - ii. the absence of significant involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
- b. The component reporting entity provides little or no direct oversight of the organization.
- c. The consolidated cost information would be misleading.
- d. The organization operates itself as a stand-alone organization (either since its inception or for a long history) and has routinely prepared annual audited financial statements and has submitted financial data directly to the Department of the Treasury for the government-wide GPFFR.

## GPFFR CONSOLIDATION AND DISCLOSURE

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### CONSOLIDATION ENTITIES

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66. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position<sup>39</sup> of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information for all consolidation entities administratively assigned to them. Consolidation<sup>40</sup> aggregates the individual financial amounts of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.
67. Consolidation entities as defined herein are considered federal reporting 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*

<sup>38</sup> The indicators listed in 65 a. – d. 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.

<sup>39</sup> 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).

<sup>40</sup> 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.

*Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.

68. SFFAS 34 recognizes that a limited number of federal reporting 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 reporting entity or a consolidated component reporting entity) may 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 organizations.

## REPORTING ON DISCLOSURE ENTITIES

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69. Maintaining a distinction between the finances of consolidation entities and disclosure entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about disclosure entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although disclosure entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.
70. For those organizations classified as disclosure entities, the preparer should exercise judgment 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. 72 to 75 below after considering the factors listed in par. 71.

## ***Factors in Determining Disclosures***

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71. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure entities. Beyond materiality, the following factors<sup>41</sup> 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 reporting entity. In particular, this would include the significance of the information regarding results of operations and

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<sup>41</sup> The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

- financial position to meeting the operating performance and stewardship reporting objectives.
- 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. ***Complexity of the relationship*** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
  - d. ***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.
  - e. ***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***

- 72. In addition to the factors presented in par. 71 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.
- 73. 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.
- 74. For each significant disclosure entity and aggregation of disclosure entities, information should be disclosed to meet the following objectives:<sup>42</sup>
  - a. ***Relationship and Organization***: The nature of the federal government’s relationship with the disclosure entity(ies)
  - b. ***Relevant Activity***: Nature and magnitude of relevant activity during the period and balances at the end of the period

<sup>42</sup> The objectives are not listed in any order of preference.

- 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
75. 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. The examples are provided to assist in determining the types of information that would meet the objectives. No individual example is itself a required disclosure and the examples are not required in the aggregate. The examples should not be considered alternatives or substitutes for one another or essential for meeting an objective in paragraph 74. Rather, disclosures that meet the objectives in paragraph 74 should be provided. In determining what information is needed to meet the objectives in paragraph 74, the factors in paragraph 71, including the complexity, 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,<sup>43</sup> 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
  - f. Information regarding the availability of the disclosure entity's annual financial report and how it can be obtained

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<sup>43</sup> 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.

- g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting 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 organization 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
76. Any disclosure entity's financial information presented in the reporting entity's 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.<sup>44</sup> This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).
77. 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.
78. 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*.

## MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM<sup>45</sup>

<sup>44</sup> 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*.

<sup>45</sup> Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. The Bureau was established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. Note that law provides that the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System.

79. The following information regarding the central banking system should be disclosed<sup>46</sup> in the government-wide GPFRR:
- a. Description of the central bank, 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 central bank including relevant information regarding governance structure with particular emphasis on matters affecting its independence and insulation from political influence
  - c. A discussion of the significance and magnitude of financial actions reported during the year by the central banking system to achieve monetary and fiscal policy
  - 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 central bank and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
  - e. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the central bank, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
  - f. Information regarding the availability of the central bank's annual financial report and how it can be obtained

## RELATED PARTIES

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80. In addition to organizations for which the Congress and/or the President are accountable,<sup>47</sup> 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.<sup>48</sup> Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.

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<sup>46</sup> Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

<sup>47</sup> 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 entity or disclosure entity and not be subject to related party reporting.

<sup>48</sup> Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

81. Related parties: Organizations are considered to be related parties if the existing relationship<sup>49</sup> or one party to the existing relationship has the ability to exercise significant influence over the other party's policy decisions.
82. Significant influence (for the purpose of this Statement) is the power to participate in the 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.
83. 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.
84. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government 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.
85. Related parties *generally* would include (see paragraph 86 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, certain multi-lateral development banks)
86. In the context of this Statement, the following generally would not be considered related parties.<sup>50</sup>
- a. Organizations 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, and non-profit organizations<sup>51</sup>

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<sup>49</sup> Relationship as used in this context refers to material transactions or events involving both parties.

<sup>50</sup> As described in paragraph 87, the following are identified as potential exclusions but judgment will be required to determine whether some pose risks that warrant disclosures.

<sup>51</sup> However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

- c. Organizations owned or managed by full-time employees of the federal government or members of their immediate families, and full-time employees of the federal government
  - 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 groups<sup>52</sup>
87. Although paragraph 86 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 88.
88. 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.
89. 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 party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
  - 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—AMENDMENTS TO SFFAC 2, *ENTITY AND DISPLAY*

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<sup>52</sup> 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.

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

91. 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).

92. 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.

93. 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 that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

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

95. 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 entity 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;

96. 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 accountable as well as other organizations for which the nature and significance of their relationship with the Federal government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

97. 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.
98. 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."
99. 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.

100. 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.
101. A new sub-heading "Need to Distinguish between Consolidation Entities and Disclosure Entities" is inserted at paragraph 53A.
102. Insert Paragraphs 53A – 53 E under the sub-heading: "Need to Distinguish between Consolidation Entities and Disclosure Entities" - The language provides a high level explanation of consolidation entities and disclosure entities. These are new terms introduced in the Statement and critical to understanding the reporting entity concept in the federal government. More importantly, the 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 organizations 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 entities 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 organizations 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 organizations that constitute 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.

103. 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

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104. This Statement is effective for periods beginning after September 30, 2017. Earlier implementation is not permitted.

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

## APPENDIX A: BASIS FOR CONCLUSIONS

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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 GPFFRs.
- A2. GPFFRs 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, 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 standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. The task force played an important role in the research and survey work that led to the release of the *Reporting Entity Exposure Draft*. (See Appendix E for a list of task force members.)

### ***Summary of Outreach Efforts***

- A5. The Exposure Draft (ED), *Reporting Entity*, was issued on April 3, 2013 with comments requested by July 3, 2013.
- A6. Upon release of the ED, notices and press releases were provided to the FASAB email listserv, the Federal Register, the Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network, and committees of professional

associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).

- A7. This broad announcement was followed by direct mailings of the exposure draft to the following relevant congressional committees:
- a) Committee on Homeland Security and Governmental Affairs
  - b) Committee on Banking, Housing, and Urban Affairs
  - c) Committee on Rules and Administration
  - d) House Committee on Science, Space, and Technology
  - e) House Committee on Oversight and Government Reform
  - f) House Committee on Financial Services
- A8. Additional types of relevant organizations were contacted with direct mailings such as museums and performing art organizations, organizations that apply FASB GAAP, and intelligence agency organizations.
- A9. Thirty-nine responses were received from preparers, auditors, professional associations, and citizens.
- A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. Due to the complexity of the standard and the issues raised, it was deemed most efficient and appropriate to include the summary of the issues raised by respondents and disposition in the narrative relating to the Board's deliberation of the issue. The following paragraphs discuss issues identified by respondents that were not included with followed by Board decisions.

## ***Organizational Approach to Defining Boundaries***

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### ***Underlying Concepts***

- A11. 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.<sup>53</sup>

- A12. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraphs 71 and 72 state "It may be said

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<sup>53</sup> SFFAC 1, paragraph 8.

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.”

A13. 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.

A14. 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.<sup>54</sup>

### ***Identifying and Classifying Organizations***

A15. 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<sup>55</sup> are to be included<sup>56</sup> 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.

A16. 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.

A17. Professional judgment is required in the application of the standards in this Statement. This Statement presents a principles-based approach to determining which organizations should be included<sup>57</sup> 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’ 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.

<sup>54</sup> See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

<sup>55</sup> “Organization” refers to the organization in its entirety including all funding sources (for example, appropriations or donations) for which the entity is accountable. It is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

<sup>56</sup> “Included” means an organization’s information is either consolidated or disclosed.

<sup>57</sup> Note that this Statement does not specify which organizations must prepare and issue financial statements.

## **Principles for Inclusion in the Government-wide GPPFR**

### **In the Budget**

A18. Identification of an organization in the President's Budget is the clearest evidence that an organization 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 GPPFR is by their participation in the budget process as evidenced by being listed in the schedule of the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information.

### **Application to Legislative and Judicial Branches**

A19. Although the legislative and judicial branches (and most organizations within those branches) may not be required to prepare financial statements, based on the '*In the Budget*' principle, those organizations would be reported upon in the government-wide report. FASAB GAAP would be the appropriate accounting standards for those entities within the judicial and legislative branches that prepare GAAP-based financial statements. While this Statement does not require any entity to prepare and issue a GPPFR, it does enable federal reporting entities preparing and issuing GPPFRs in conformance with GAAP as defined by SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, to determine what organizations should be included in reports.

### **Organizations Receiving Federal Financial Assistance**

A20. The schedule of the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the 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 GPPFR.

A21. 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.”

A22. As exposed, the proposed language attempted to ensure organizations that receive federal financial assistance<sup>58</sup> as defined by the Single Audit Act Amendments of 1996 but listed

<sup>58</sup> This Statement adopts the definition of “federal financial assistance” established in the Single Audit Act Amendments of 1996. However, an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance. As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-

under an appropriation in the schedule of the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information are not 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 is 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.

A23. Although the number of organizations listed in the budget as receiving subsidies are few, respondents wondered (1) whether such organizations had to be subject to the requirements of the Single Audit Act to be considered, (2) whether federally authorized “support fees” would meet the definition of assistance, and (3) which listing within the budget should be an inclusion principle given this practice. Because of these questions, the wording was clarified to provide that such non-federal organizations would be state, local or territorial governments (or components thereof) or not-for profit organizations. In addition, the footnotes clarify that the exclusion is not limited to organizations subject to the Single Audit Act or to specific forms of financial assistance. Lastly, if an organization listed in the budget is to be excluded it is because it is neither owned nor controlled as defined in these standards.

### **Organizations Partially in the Budget**

A24. 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 organizations 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 entities 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 is either a consolidation entity or a disclosure entity and should be reported as one or the other, in its entirety.

A25. Certain respondents noted concern because donated funds are for specific purposes and are not available for general government use. They believed full consolidation may be misleading. However, entities receiving donations administer and are accountable for both appropriations and donated funds. Presently, the financial statements for museums receiving donations display consolidated totals along with separate columns for federal and donor funds. This presentation provides accountability for all funds under the entity’s management while alerting the reader to restrictions. At the government-wide level, concern may be mitigated by similarly presenting donated funds as dedicated collections to the

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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. For the purposes of these standards, ‘other assistance’ includes federally-authorized support fees and other charges even if legislation granting authority to collect them indicates that the fees or other charges are not considered public monies of the United States.

extent they meet this definition. For example, such reporting would reveal that donor funds are unavailable for general use by the government.

### *Need for Additional Principles*

A26. 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.

### *Majority Ownership Interest*

A27. 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.

A28. The Board noted that some may question 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*

A29. 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.

A30. 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.

A31. 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.

A32. 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.

A33. 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 organization to deliver goods and services.

#### Misleading to Exclude

A34. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. In developing the proposal, some Board members and respondents to the proposal believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate unique situations that may arise in the future. This is consistent with provisions of SFFAC 2 and the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*.

A35. Requiring inclusion of an organization it would be misleading to exclude allows for judgment in unique situations not anticipated when the standards were developed. If it were feasible to anticipate such situations and develop criteria then there would be no need to provide for judgment. While there are concerns regarding possible unanticipated consequences, the Board believes the provision will be of benefit during the implementation period. If adjustments are needed, agencies may seek amendments to the standards as appropriate. Further, the Board also may consider whether the provision is necessary after implementation.

#### **Reporting on Organizations—Consolidation or Disclosure**

A36. 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. Consolidation entities should apply the hierarchy of GAAP established for “federal reporting entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure entities need not apply the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A37. Different means of presenting relevant information are provided for consolidation entities and disclosure entities.<sup>59</sup> The distinction between consolidation entities and disclosure entities is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, 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 organization is more useful than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A38. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure entities, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure entity might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),<sup>60</sup> 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.

A39. The role of preparers and auditors is to assess each organization against the principles in paragraphs 22 – 55 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 explicitly address inclusion and classification (as a consolidation entity or disclosure entity) of the FRS in GPFRRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, 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.

A40. 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

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<sup>59</sup> 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.

<sup>60</sup> The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. The Bureau was established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. , Note that law provides that the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System. For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

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 would consider the appropriate matters in making decisions. The majority of the Board believes the 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 entity or disclosure entity.

- A41. If the assessment of the FRS 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 organizations. 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.
- A42. 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 the federal government. 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 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.
- A43. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities, and the need to maintain independence. Its responsibilities are broad reaching and of great interest because of the impact of monetary policy on the country. The magnitude of its role and transactions led the Board to require certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements at the government-wide or component reporting entity levels. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated and, depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

### Consolidation entities

- A44. 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.
- A45. Consolidation entities generally are financed through taxes and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the federal government for consolidation entities. Inclusion in the budget is the clearest evidence an organization is relying on the taxpayer and that elected officials are key decision makers.
- A46. 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, generally qualify as consolidation entities.
- A47. The assessment of whether an organization 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.

### Disclosure entities

- A48. Disclosure entities receive limited or no funding from general tax revenues. 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 may be an effort to shield the federal government from risk.
- A49. 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 have a separate legal identity. In some cases, the relationship with the federal government is not expected to be permanent.
- A50. 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.

A51. 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 potential disclosure entities include quasi-governmental and/or financially independent organizations, receiverships and conservatorships, and federal government intervention actions.

### ***Quasi-Governmental and/or Financially Independent Organizations***

A52. The Statement describes quasi-governmental and/or financially independent organizations as those entities where governance and/or financial differences lead to greater independence. The Statement identifies both governance and financial characteristics that would be found in this type of entity.

A53. Quasi-governmental and/or financially independent organizations 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***

A54. The Statement describes receiverships and conservatorships as 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 organizations generally would be disclosure entities.

### ***Federal Government Intervention Actions***

A55. The Statement describes federal government intervention actions as 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.”

A56. 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, or counties. These types of federal government interventions are considered rare.<sup>61</sup> Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.<sup>62</sup> Although the federal government may not act to maximize profits, the federal

<sup>61</sup> 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)

<sup>62</sup> Congressional Research Service (CRS) Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

government may intervene and act in capacities to protect citizens. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

- A57. 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.
- A58. 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” imply a time limit.
- A59. 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 notes that this “non-permanent” expectation would generally lead to the entities exhibiting more of the characteristics of a disclosure entity than of a consolidation entity. This is preferable to relying on “temporary” or “fleeting” which implies that a time limit could be established.
- A60. A further implication the Board wishes to avoid is that organizations owned or controlled as a result of interventions are considered “federal entities.” The Statement recognizes that such interventions create a need for accountability but they do not make the disclosure entities arising from intervention actions “federal entities.” Hence, the Statement establishes that disclosure entities would not be required to apply the GAAP hierarchy for federal entities.

### ***Component Reporting Entities***

- A61. 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 organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure entities should 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.
- A62. Nonetheless, implementation of these principles involve the component reporting entities because the government-wide report is, for the most part, a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure entities for which

they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A63. The Board believes that component reporting entities should identify consolidation entities 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 (for example, appointed officials) are expected to be accountable.

A64. 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 entities and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete.

A65. 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

A66. Component reporting entities should develop processes to ensure they identify and include those consolidation entities and disclosure entities that are (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. In rare cases, a component reporting entity may find that it would be misleading to include a consolidation entity that appears to be within the scope of their budget process or to have accountability established within the component reporting entity. While most respondents agreed with the proposal, several indicated a need for implementation guidance, especially regarding the misleading to include provision. In addition, there was some confusion about how the inclusion principles applied from the government-wide perspective relate to the administrative assignments at the component reporting entity level.

A67. The Board does not intend to provide detailed administrative assignment implementation guidance at this time. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency. 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 as well as development of any needed implementation guidance.

A68. Regarding the “misleading to include provisions,” the Board made editorial changes to clarify that they expect this to occur only in rare cases where the substance of relationships between consolidation entities differs from their form. For example, the Pension Benefit Guarantee Corporation (PBGC) is legally established within the Department of Labor. Nonetheless, PBGC has always operated as a separate legal entity with a mandate to fund

its operations from premiums and has provided separate audited financial statements since its inception. Some believe that it would be misleading to consolidate PBGC and Department of Labor financial statements. In contrast, the misleading to include provision would not be an appropriate justification for excluding an office such as the Office of the Inspector General from the consolidated financial statements of its associated Department

A69. Also, some respondents questioned whether the misleading to include provision would be applicable to disclosure entities. It would not because disclosure entities would not be consolidated in the financial statements of the component reporting entity. Use of disclosures to explain the relationship would prevent misleading presentations about disclosure entities.

A70. During due process, some respondents questioned the difference between the inclusion principles and administrative assignments. The inclusion principles are to be applied from a government-wide perspective; whereas administrative assignments are determined from the component reporting entity perspective. Presently, under SFFAC 2, component reporting entities apply the conclusive and indicative criteria from their perspective as an individual government agency. In some cases, no individual government agency has direct involvement in the operations of entities that nonetheless are controlled through legislation established by and/or officials appointed by elected officials. Also, some ownership documents identify the federal government as owner rather than a particular government agency. To ensure that all owned or controlled entities are included, the inclusion principles must consider the relationship of an organization and the federal government as a whole.

A71. Another key difference is that administrative assignments are assessed from the component reporting entity perspective. So, component reporting entities will need to adapt to a multi-step process involving varying perspectives (inclusion principles applied from a government-wide perspective and administrative assignments from the departmental perspective). Accordingly, coordination with the central agencies during the implementation process will be important.

### ***GPFFR Consolidation and Disclosure***

A72. 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 entities or disclosure entities.

A73. 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**

A74. 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 citizens may assess the financial

position and the cost of operations of the federal government. Consolidation of financial information regarding the activities financed by taxes and other non-exchange revenue, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

A75. 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 organizations 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**

A76. While FASAB is the appropriate source of GAAP for federal entities, 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 organizations 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 reporting 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.

A77. 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.<sup>63</sup> (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

<sup>63</sup> 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.

A78. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there may be 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 organizations may not be justifiable since conversion may not aid users.

A79. 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 organizations; 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 establishes that amounts derived for component reporting entities in compliance with SFFAS 34 may be consolidated without adjustment.

A80. 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.

A81. The Board initially proposed that activities measured in accordance with FASAB standards and amounts related to intragovernmental were required to be disclosed in the notes of component reporting entities to facilitate eliminations at the government-wide reporting level. However, after further consideration of the comments, the board determined this information may not be relevant for the component reporting entity GPFFRs and was more appropriately obtained in the Treasury closing package. Likewise, the budgetary reporting issues highlighted by respondents appeared to be a reconciliation and system issue that should be addressed in the Treasury Financial Manual instead of an accounting standard.

### Disclosure Entities

A82. 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 organization 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 organizations having the characteristics of disclosure entities should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements.

A83. 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

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.<sup>64</sup>

A84. 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***

A85. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors 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.

A86. 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. During due process, several respondents disagreed with the factor “*Disclosure entity views/perspective*” that provided for consideration and judgment of about how the disclosure entity views its relationship with the federal government. Most respondents did not believe this should influence the level of disclosures and noted that often the reporting entity would not be aware of the views. The Board recognized that there may be situations where, for example, whether the disclosure entity views itself as an extension of the federal government or as operationally independent of the Congress and/or the President should influence the type and extent of information that is disclosed. However, it may be difficult to state operationally how this would affect disclosures in given situations. Therefore, while the Board agrees this factor may be relevant, it nonetheless removed it from the Statement.

### ***Disclosure Requirements***

A87. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives. A wide variety of information is listed as examples to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure entity is 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. For example, one reporting entity may

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<sup>64</sup> SFFAC 1, par. 156.

determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure entity type, such as receiverships, and yet another by class, such as museum.

A88. Further, 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. 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.

A89. The Board believes any financial information about disclosure entities in the reporting entity's GPFFR should be based on accrual basis standards specific to the type of organization while minimizing additional costs on the disclosure entity. There will be instances where information about disclosure entities is produced for reporting periods that differ from the reporting entity's reporting period. To minimize additional costs, the Board agreed that if disclosure entities have a different reporting period than the reporting entity's GPFFR, disclosure of information from a reporting period ending within the 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.

A90. 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 entities' audited financial statements and before the issuance of the reporting entity's audited financial statements for a later fiscal year-end. The Board notes this would only be necessary if the disclosure entities' 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.

A91. 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.

A92. 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 disclosure entities.<sup>65</sup> The Board noted the need to emphasize the aggregation of

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<sup>65</sup> As discussed in paragraph A43 about the Federal Reserve System, the magnitude of its role and transactions led the Board to propose certain minimum disclosures about the central banking system in paragraph 79 of the Statement. However, these are minimum disclosures and depending on the circumstances, some of the listed information may need to be disclosed due to other requirements. The

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 Parties**

A93. The Board determined it should define “related parties” and address them 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 and that application would be inappropriate.

A94. Because of the extent of the federal government’s relationships – whether already established or implied – “related parties” concepts may result in numerous relationships requiring disclosure. Therefore, the Board requires 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.

A95. In addition, the Statement 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. While the standards identify potential exclusions that generally would not be related parties (and those that may) one must consider the many complex relationships where significant influence is exerted. Judgment will be required to determine which significant influences may pose risks that warrant disclosures and these standards do not preclude the reporting of a related party if factors deem it appropriate. The related parties 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.

A96. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains but will not be considered related parties under federal standards<sup>66</sup>. In reaching this conclusion, the Board discussed how jointly controlled component reporting entities present 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, the decision to exclude these entities from related party reporting placed such information requirements outside the scope of this Statement.

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disclosures should be integrated so that concise, meaningful and transparent information is provided and Information is not repetitive

<sup>66</sup> Therefore, intra-governmental transactions would not be considered related party transactions.

A97. During its due process, the Board considered a request that ‘related parties’ language be modified to clarify that members appointed to boards as individuals and the entities they are affiliated with are not in related party relationships with the departments or agencies. The Board did not believe additional language was necessary as the broad classes of exclusions provided were sufficient. Board members noted concern with broad exclusions of board members and organizations with which they are affiliated because there may be situations where disclosures would be appropriate. Further, current practices have provided meaningful and transparent information and the Board believes this information should continue to be provided absent a change in circumstances.

A98. The Board further understood the respondent’s concern that the term ‘related party,’ as commonly used in financial reports, may imply less than arms-length transactions. The Board believes once federal standards are issued, the term ‘related parties’ in the federal environment will develop its own unique meaning - that is, relationships of such significance to the reporting entity that it would be misleading to exclude information if one party to the existing relationship has the ability to exercise significant influence over the other party’s policy decisions. There is a focus on exposures to risk of loss or potential gain as a result of the relationship. Additionally, the standards do not prevent an entity from referring to related parties as “Affiliated Institutions” or any other appropriately descriptive term. When doing so, it may be informative to explain the relationships by including information such as conflict of interest rules and other frameworks under which they operate.

A99. During due process, certain respondents asked for clarity regarding the difference between a disclosure entity and a related party. More specifically, the respondents had difficulty finding a distinction between the characteristics of a related party and those of a disclosure entity meeting the “misleading to exclude” inclusion principle. When considering whether the principles required clarity, the Board noted the key difference between related parties and included organizations is that related parties are not controlled or owned but are significantly influenced by or influencing the federal government. In considering whether an organization rises to “misleading to exclude” the Board believes this distinction between included organizations and related parties will be helpful. The Board did not believe there was a need to revise the standard.

A100. The Board recognizes the difficulty in applying new standards to complex relationships. However, the Board believes the standard is clear. While there is a key change in the application of principles from the government-wide perspective, central agency coordination and guidance during the implementation process will aid users in adopting this perspective.

### ***Proposed Amendments to SFFAC 2, Entity and Display***

A101. The Statement provides 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.

A102. Paragraphs 54—77 and 79 – 112 of SFFAC address concepts outside the scope of this Statement and are not amended.

A103. In addition, no changes are 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.

A104. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (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 principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure entities—or to continue to exclude the organizations. 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.

### ***Other Unique Situations***

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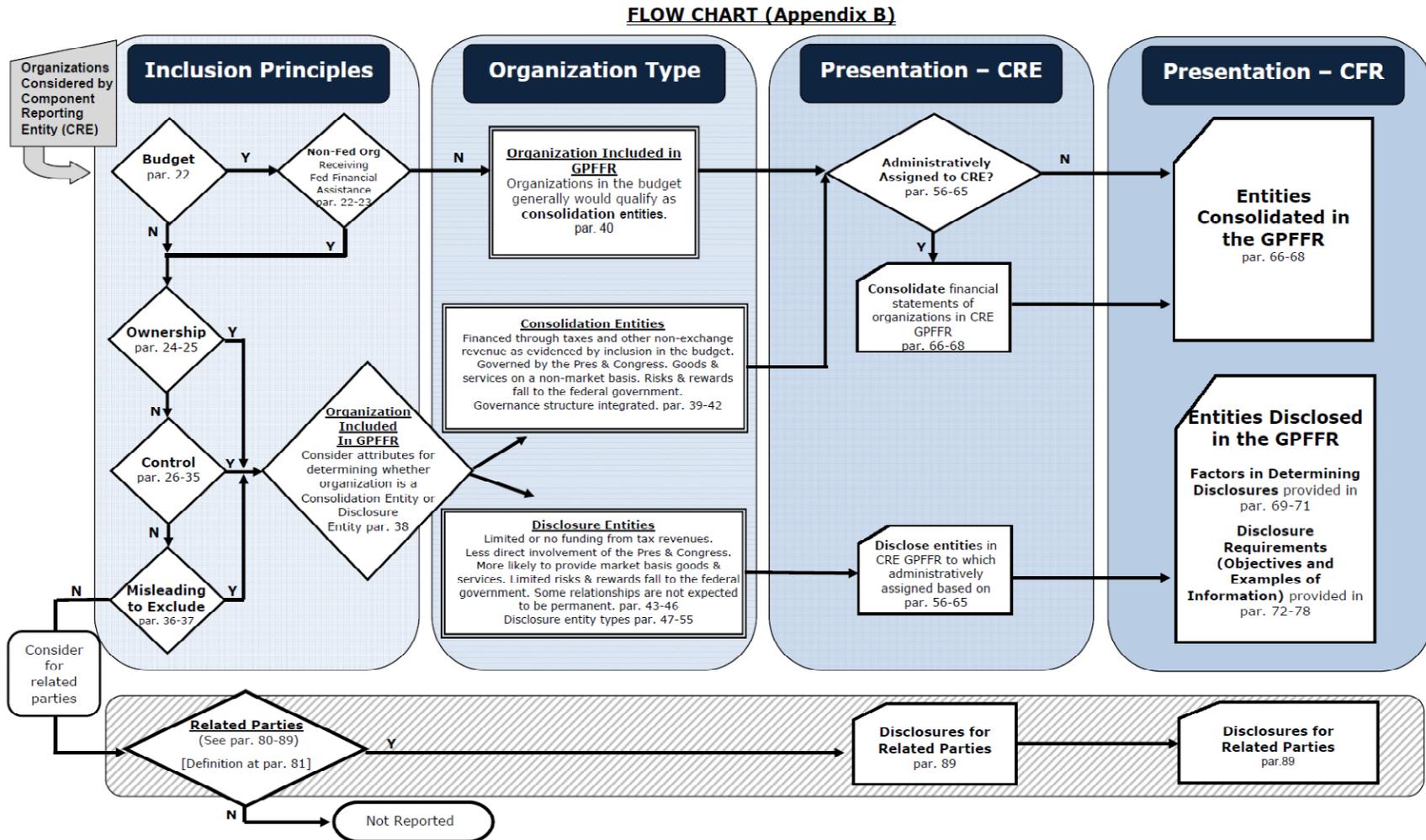
A105. As part of the exposure draft process, the Board also asked respondents if there were other unique situations that should be addressed within the Statement. The Board received input from respondents on several example organizations that they believed should be clarified in the Statement. The Board considered the suggestions against the goal to develop principles-based standards that could be applied to all organizations. The Board believes the standards are sufficiently clear. Therefore, the Board did not revise the proposed requirements in response to these unique circumstances.

### ***Board Approval***

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A106. This Statement was approved for issuance by X members of the Board. The written ballots are available for public inspection at the FASAB's offices.

## APPENDIX B: FLOWCHART



## APPENDIX C: ILLUSTRATIONS

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### *Preamble*

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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 organizations.
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 organizations requires consideration of the circumstances specific to each organization 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 organization. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

## **ABC Department**

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(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 schedule in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information. 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 Entity or Disclosure Entity**

Further, because it is listed in the budget, ABC generally would 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 entities or disclosure entities administratively assigned to ABC.

## ***Epsilon Corporation***

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(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 schedule in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule that provides budget account level information.. 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 organization 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 Entity or Disclosure Entity***

Further, because it is listed in the budget, Epsilon generally would 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/or 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 Entity 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 organization. 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. Tax revenue is not appropriated 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 federal government 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 GPFFR. If Sigma is also administratively assigned to other component reporting entities, then those component reporting entities should also consider the need to disclose information in their GPFFRs.

## **Scholars University**

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(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 schedule in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information 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 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 organization. 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 organization 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)***

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(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 schedule in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information 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 Entity 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 taxes.
2. Federal government has 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**

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(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* that provides budget account level 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 organization’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 Entity 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 taxes.
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. Federal government has 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)***

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(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 the 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)***

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(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 organization should be included in the government-wide GPFFR.

### ***Classification as a Consolidation Entity 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 component reporting 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 that provides budget account level information. 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 Entity 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 taxes.

2. The federal government has 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***

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(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 that provides budget account level information. 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 the 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***

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(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 organizations 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 schedule in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* that provides budget account level information and the federal government does not have a majority ownership interest in the company.

Further, management conducted a thorough assessment of control indicators and determined 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)***

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(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 that provides budget account level information. 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 GPFRR 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 Entity or Disclosure Entity***

Because it is listed in the budget, the Museum generally would 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 GPFRR. The financial statements included should be for the entire organization 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 GPFRR.

## ***U.S. Museum (Scenario B)***

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

### ***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 organization 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 that provides budget account level information. 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 Entity 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, the 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 the 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 organization – 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 financing from taxes 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 federal government.

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 Entity 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 tax revenues 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 GPPFR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule that provides budget account level information 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 Entity 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 tax revenues 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 organizations 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 organizations.

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 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 ORGANIZATION INCLUDED? | A CONSOLIDATION ENTITY (CONSOLIDATED)  | A DISCLOSURE ENTITY (DISCLOSED)      |
| <b>ABC Department</b>               | Yes   |       |   |   | Yes                           | Organizations listed in the Budget generally would qualify as consolidation entities.  |                                      |
| <b>Epsilon Corporation</b>          | Yes   |       |   |   | Yes                           | Organizations listed in the Budget generally would qualify as consolidation entities.  |                                      |
| <b>Sigma Association</b>            | 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 organization |
| <b>Scholars University</b>          | 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                            |  |                                      |
| <b>Education Research Institute</b> | 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 federal government 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 ORGANIZATION INCLUDED?   | A CONSOLIDATION ENTITY (CONSOLIDATED)  | A DISCLOSURE ENTITY (DISCLOSED)   |
| <b>Mediation Corporation</b>              | 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 federal government. |
| <b>Bicycle America, Inc. (Scenario A)</b> | 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. |  |   |
| <b>Bicycle America, Inc. (Scenario B)</b> | No   | Yes, the federal government acquired 51% of the voting rights in BA. |   |   | Yes   |  | Intervention intended to be temporary   |
| <b>Chatham Laboratory (FFRDC)</b>         | 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 taxes, 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 ORGANIZATION INCLUDED?   | A CONSOLIDATION ENTITY (CONSOLIDATED)  | A DISCLOSURE ENTITY (DISCLOSED)                       |
| <b>Gotham Laboratory</b>                   | 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. |  |   |
| <b>Andromeda Prime Power Systems (GSE)</b> | 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.                          |  |   |
| <b>U.S. Museum (Scenario A)</b>            | Yes  |                          |  |   | Yes   | Yes. The Museum is in the budget and primarily funded by taxes and governance rests with the President and Congress. |   |
| <b>U.S. Museum (Scenario B)</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 organization. |
| <b>Firefighters' Housing Limited</b>       | No   | Ownership of property is | Yes. Agency 123 has significant authority to direct the limited partnership's activities and to  |   | Yes   | Yes. Taxes fund the housing and risks have   |   |

| 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 ORGANIZATION INCLUDED? | A CONSOLIDATION ENTITY (CONSOLIDATED)     | A DISCLOSURE ENTITY (DISCLOSED)   |
| Partnership                       |  | retained.                                    | affect day-to-day activities such as in design and construction and the partnership's purpose is to carry out federal missions and objectives. |                       |                               | 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

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|        |  |
|--------|--|
| AICPA  | American Institute of Certified Public Accountants   |
| C.F.R. | Code of Federal Regulations                          |
| CFR    | Consolidated Financial Report of the U.S. Government |
| CRE    | Component Reporting Entity                           |
| CRS    | Congressional Research Service                       |
| ED     | Exposure Draft                                       |
| FAR    | Federal Acquisition Regulation                       |
| FASAB  | Federal Accounting Standards Advisory Board          |
| FASB   | Financial Accounting Standards Board                 |
| FDIC   | Federal Deposit Insurance Corporation                |
| FFRDC  | Federally Funded Research and Development Center     |
| FRS    | Federal Reserve System                               |
| GAAP   | Generally Accepted Accounting Principles             |
| GAO    | Government Accountability Office                     |
| GPFFR  | General Purpose Federal Financial Report             |
| OAI    | Other Accompanying Information                       |
| OIG    | Office of Inspector General                          |
| 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  |
| U.S.C. | United States Code                                   |

## APPENDIX E: TASK FORCE MEMBERS

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Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

Terry Bowie, (formerly of) NASA

James L. Chan, University of Illinois at Chicago

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

Andrew Lewis, 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, (formerly of) 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

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**Component Reporting Entity** “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.<sup>67</sup> Examples of component reporting entities include organizations 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.<sup>68</sup>

**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.<sup>69</sup>

**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.<sup>70</sup> 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

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<sup>67</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>68</sup> Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

<sup>69</sup> 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.

<sup>70</sup> The Office of Federal Procurement Policy (OFPP) and Federal Acquisition Regulation (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.

(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.

**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.<sup>71</sup>

**Receivership** Receivership is the legal procedure for winding down the affairs of an insolvent institution.<sup>72</sup>

**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's policy decisions.

**Reporting Entity** Reporting entities are organizations 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.

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.<sup>73</sup> 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.

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<sup>71</sup> CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

<sup>72</sup> *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.

<sup>73</sup> SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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## Statement of Federal Financial Accounting Concepts 2: Entity and Display

### Status

|   |  |
|---|--|
| <b>Issued</b>                                 | June 6, 1995   |
| <b>Interpretations and Technical Releases</b> |  |
| <b>Affects</b>                                | No other statement.  |
| <b>Affected by</b>                            | <ul style="list-style-type: none"><li>• Paragraphs 90-102, SFFAS 7, which affect paragraphs 64, 74, 105 of this statement, and add Appendix I-G.</li><li>• SFFAS 27, paragraph 38, amends footnote 3.</li><li>• SFFAS 31, paragraph 35, amends paragraphs 84 and 102.</li><li>• SFFAC 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.</li></ul> |

### Summary

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.

## Table of Contents

### Contents Page

|  | Summary 1 |
|--|-----------|
| Introduction   |           |
| Reasons for Defining Reporting Entities                                      |           |
| Structure of the Federal Government  |           |
| Identifying the Reporting Entities for General Purpose Financial Reporting   |           |
| Criteria for Including Components in a Reporting Entity                      |           |
| Other Aspects Concerning the Completeness of the Entity                      |           |
| Displaying Financial Information   |           |
| Distinguishing Basic Information, RSI, and OAI                               |           |
| Recommended Content for the Recommended Displays                             |           |
| Appendix 1-A: Balance Sheet  |           |
| Appendix 1-B: Statement of Net Costs   |           |
| Appendix 1-C: Statement of Changes in Net Position                           |           |
| Appendix 1-D: Statement of Custodial Activities                              |           |
| Appendix 1-E: Statement of Budgetary Resources                               |           |
| Appendix 1-F: Statement of Program Performance Measures                      |           |
| Appendix 1-G: Statement of Financing   |           |
| Appendix 2: List of Acronyms [See Appendix F: Consolidated List of Acronyms] |           |

## Introduction

1 A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.

2 The purpose of this statement 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).

~~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.<sup>1</sup>~~

~~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.~~

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<sup>1</sup>~~—OMB 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.~~

~~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<sup>2</sup>, commissions, and corporations. FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. However, the concepts recommended in this statement would be appropriate for those branches.~~

6. The concepts, as defined in this statement, are intended primarily for the general purpose financial reporting performed by Federal entities. This is the financial reporting that these entities would undertake to help meet the objectives defined in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting." These objectives are as follows:

- **Budgetary integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
- **Operating performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
- **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.
- **Systems and control.** Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure proper execution of transactions, safeguard assets, and support performance measurement.

¶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 that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

~~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.

<sup>2</sup>—"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.

## 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 information at each reporting entity 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;
- ~~ensure that for the aggregation of information at each reporting level, no entity is omitted, and to provide for consolidations and/or combinations of information from reporting units at the same level, as appropriate;~~
- assist in making comparisons among comparable reporting entities by reducing the possibility of unintended or arbitrary exclusions or inclusions of entities;
- assist in making comparisons among alternative ways to provide similar services or products;
- be able to distribute costs properly and fully and to properly attribute the responsibility for assets and liabilities; and
- facilitate evaluating performance, responsibility, and control, especially where one agency is the provider or recipient of services attributable to or financed by another agency.

## Structure Of The Federal Government

11. The Federal Government is an extremely complex organization composed of many different components. For accounting and reporting purposes, it may be viewed from at least three perspectives. However, the nature of each type of component and the relationships among the components and perspectives are not always consistent.

### Organization Perspective

12. The first type of perspective is the **organization** perspective. The Federal Government is composed of organizations that manage resources and are responsible for operations, i.e., delivering services. These include the major Departments and independent agencies, which are generally divided into suborganizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, services, and corporations. Many of these are further divided into even smaller suborganizations. On the other hand, there are small agencies for which division into smaller units is generally not considered appropriate.

### Budget Perspective

13. From another perspective, the government is composed of accounts presented in the budget, hereinafter referred to as **budget accounts**. Budget accounts are composed of expenditure (appropriations or fund) accounts and receipt (including offsetting receipt) accounts. The size and scope of these accounts varies according to Congressional preference. They can vary from very small accounts, which are useful for constraining management, to very large accounts, which can be used to finance many activities.

14. Budget accounts are not the same as Treasury accounts. The latter are accounts established in the Treasury to, among other purposes, record the appropriations and other budgetary resources provided by statutes and the

transactions affecting those accounts. For the most part, budget accounts are aggregations of Treasury accounts. Also, Treasury accounts include deposit accounts as well as budget accounts.

15. Nor are budget accounts the same as the uniform ledger accounts established by the U.S. Government Standard General Ledger (SGL). SGL accounts record specific homogeneous types of transactions and balances that aggregate to specific classifications on the financial statements. They have been established so that agencies can establish control over their financial transactions and balances, meet the basic financial reporting requirements, and integrate budgetary and financial accounting in the same general ledger.

16. A budget account may coincide with an organization or one or more of its suborganizations. Other times, several budget accounts need to be aggregated to constitute an organization or sub-organization.

17. Budget accounts are classified as federal funds or trust funds. Any account that is designated by the laws governing the federal budget as being a trust fund is so classified. Federal funds comprise the larger group and include all transactions not classified by law as trust funds. Three components make up federal funds: the general fund, special funds, and revolving funds. The definition of each of these categories can be found in the OMB circular A-11 and the GAO [Glossary of Terms Used in the Federal Budget Process](#).

18. Care must be taken in determining the nature of all trust funds and their relationship to the entity responsible for them. A few trust funds are truly fiduciary in nature. Most trust funds included in the budget are not of a fiduciary nature and are used in federal financing in a way that differs from the common understanding of trust funds outside the federal government. In many ways, these trust funds can be similar to revolving or special funds in that their spending is financed by earmarked collections.

19. In customary usage, the term "trust fund" refers to money belonging to one party held "in trust" by another party operating as a fiduciary. The money in a trust fund must be used in accordance with the trust's terms, which the trustee cannot unilaterally modify, and is maintained separately and not commingled with the trustee's own funds. This is not the case for most federal trust funds that are included in the budget--the fiduciary relationship usually does not exist. The beneficiaries do not own the funds and the terms in the law that created the trust fund can be unilaterally altered by Congress.

20. Special funds and trust funds, except trust revolving funds, are aggregates of budget accounts. They normally consist of one or more receipt accounts and one or more expenditure accounts. Among the trust funds, social insurance programs (such as social security and unemployment compensation) have the largest amount of funds and federal employee programs (such as retirement and health benefits) the second largest. Together they make up about 90 percent of all trust fund receipts. Other trust funds include excise tax financed programs for highway construction, airports and airway operations, and other public works. Like other budget accounts, trust funds are usually the responsibility of a single organization, although sometimes they are the responsibility of more than one organization.

21. Budget accounts are also categorized, as mandated by law and defined by OMB, into functions and subfunctions that represent national needs of continuing national importance and substantial expenditures of resources. Examples of functions are national defense and health.

## Program Perspective

22. From a third perspective, the government is composed of **programs and activities**, i.e., the services the organizations provide and the specific lines of work they perform. Each program and activity is responsible for producing certain outputs in order to achieve desired outcomes.

23. There is no firm definition for the term “program;” it varies in the eye of the beholder. For example, the Highway program could relate to the entire Federal highway program, the program to build interstate highways (in contrast to city streets, secondary roads, etc.), or a program to build a highway between two specific points. Moreover, in accordance with the sequester provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the House and Senate Appropriations Subcommittees annually define, in the Committee Reports, the meaning of “Programs, Projects, and Activities” as they relate to each of the Appropriations Acts.

24. The term “program” is also often used interchangeably with the terms “function” and “subfunction” (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 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.<sup>31</sup>

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.

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 accountable as well as other organizations for which the nature and significance of their relationship with the Federal 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 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.~~

<sup>31</sup> For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenues would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund 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.

~~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.<sup>4</sup>~~

#### ~~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.<sup>5</sup>~~

~~<sup>4</sup> Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.~~

~~<sup>5</sup> The term government sponsored enterprise is also sometimes used in a broader manner to encompass other entities established by the Federal Government to further a public policy and that are also not included in the budget section "Federal Programs by Agency and Account." Examples are the Financing Corporation, Resolution Funding Corporation, Amtrak, and even, on occasion, the American National Red Cross. These entities have varied characteristics and different types of relationships to the Federal Government, and therefore, in some cases, may be included with the above mentioned GSEs in sections or tables of Federal budget documents. These entities need to be judged individually with respect to the indicative criteria presented in paragraph 39 in order to determine whether they should be considered part of a Federal reporting entity.~~

### 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 Component Reporting Entity

51. 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.

~~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 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.<sup>6</sup>~~

~~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~~

<sup>6</sup>The Board is developing a Statement of Managerial Cost Accounting Concepts and Standards. This document, when finalized, will address recognition of these amounts.

~~loan program is charged for the cost of capital provided by the U.S. Treasury.<sup>7</sup>~~

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## Need to Distinguish between Consolidation Entities and Disclosure Entities

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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 organizations 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 entities 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 organizations 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 organizations that constitute 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*

<sup>7</sup> ~~The 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.~~

[Standards Issued by the Financial Accounting Standards Board. The following sections discuss display of information in consolidation entity financial reports.](#)

#### Displaying Financial Information

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating 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, 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.<sup>8</sup> 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**.

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.

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<sup>8</sup> The 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.

## 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**,<sup>9</sup> 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

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<sup>9</sup> The Board does not consider the Statement of Program Performance Measures to be a basic financial statement.

budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide 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."<sup>10</sup> 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,<sup>11</sup> 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.<sup>12</sup>

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 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

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<sup>10</sup> A 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."

<sup>11</sup>[Text rescinded per SFFAC 6.]

<sup>12</sup> [Text rescinded per SFFAC 6.]

## 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<sup>13</sup> 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.

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

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<sup>13</sup> The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

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.

| 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 Objectives>                   |                      |
|  | < 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>   |                      |

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\***

\*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;<sup>14</sup>
- statement of program performance measures;<sup>15</sup>
- accompanying footnotes;
- required supplementary information; and
- other accompanying information.

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<sup>14</sup> 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.

<sup>15</sup> The statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.

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.<sup>16</sup> The information for the individual components could be provided with separate columns in consolidating financial statements<sup>17</sup> (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate 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

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<sup>16</sup> "Such 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.

<sup>17</sup> "A **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.

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.<sup>16</sup> 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 intraentity transactions and balances.<sup>17</sup>

~~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 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:

<sup>16</sup>Sub-organizations required by statute to prepare and issue a separate financial statement would, by definition, also need to do so.

<sup>17</sup>[Rescinded by SFFAC 6.]

- 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.

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**

**\*NOTE: This section was not included because the amendments in the proposed standard do not affect this portion of SFFAC 2.**



June 6, 2014

Memorandum

To: Members of the Board

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

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity–Tab A Reporting Entity- Appendix B Updated Staff  
Disposition of Comments<sup>1</sup>**

### MEETING OBJECTIVE

To provide a status of the disposition of comments and member comments received on the **Reporting Entity** exposure draft.

### BRIEFING MATERIAL

This memorandum includes **Appendix B Staff Disposition of Comments**. The schedule provides an updated status and disposition of comments received on the **Reporting Entity** exposure draft.

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### MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. 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](mailto:loughanm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

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<sup>1</sup> 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.

## Appendix B-STAFF DISPOSITION OF COMMENTS

**STAFF DISPOSITION OF COMMENTS** -*Full Text of Answers and Comments by Question and by Respondent*

### KEY FOR DISPOSITION OF COMMENTS:

Areas shaded GREY: **ITEM CLOSED, NO ACTION REQUIRED.**

An item is shaded grey based on if the Respondent Agreed or No Comment.

In addition, once the Board finalizes a comment or issue it becomes closed and is shaded grey.

**Areas shaded blue relate to the remaining Editorial or structural comments that were considered by staff in conjunction with the other revisions in preparing the complete document for the June Board meeting. Some of these comments were considered but did not result in any change to the proposed language.**

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

QUESTION 1

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

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| #1 PBGC -Joint Response CFO & OIG  | No response  |
| # 2 Holocaust Memorial Museum- CFO   | No response  |
| #3 Office of Personnel Management - CFO  | <p>a. Agree. Each of the inclusion principles provides a basis for an organization to be included in the government-wide GPFFR.</p> <p>b. Yes, we believe the inclusion principles, and the related definitions and indicators, are helpful and clear. They cover the key scenarios.</p> <p>c. Agree, in that the GPFFR would not be reliable if excluded. Completeness is important.</p> <p>d. Agree. Each of the inclusion principles provides guidance for determining whether an organization should be included in the government-wide GPFFR. The inclusion principles are comprehensive.</p>   |
| #4 Postal Service- OIG   | No response  |
| <p>#5 Securities Investor Protection Corporation (“SIPC”)</p> <p><b><u>1. In the Budget- Dec 2013</u></b></p> <p><b><u>1. a. In the Budget- March 2014</u></b></p> | <p>a. Disagree. SIPC believes that its inclusion in the Budget should not be used as a factor to determine whether SIPC should be included in the government-wide general purpose federal financial report (“GPFFR”).</p> <p>Congress enacted the Securities Investor Protection Act, 15 U.S.C. § 78aaa et seq. (“SIPA”), in 1970 in reaction to a crisis of confidence in the securities industry. SIPA established SIPC as a non-governmental and non-profit corporation whose membership would consist of registered securities broker-dealers. See SIPA § 78ccc(a)(2)(A). SIPC’s main function is the protection of customers of failed securities broker-dealers that are members of SIPC and that are in liquidation under SIPA. Among other things, SIPC oversees the administration of the liquidation proceeding and provides funding, as needed, for the administrative expenses of the proceedings and, within limits, for the satisfaction of customer claims. SIPC’s funding derives from a Fund that SIPC administers and that is comprised of assessments paid to it by its members and amounts generated from investment of the Fund. SIPA § 78ddd(c). The amount of the assessments that broker-dealers pay is based on rates that are set under SIPC bylaw and that have varied over time as a result of the amount of the Fund and the applicable target limit of the Fund, also set by SIPC bylaw. SIPA § 78ddd(c)(2).</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <p><b>1. In the Budget-<br/>Dec 2013</b></p> <p><b>1.a. In the Budget-<br/>March 2014</b></p> | <p>At present, the SIPC Fund stands at approximately \$1.85 billion. The SIPC Fund is not held at the Department of the Treasury (“Treasury”), and the Treasury has no control over or access to the SIPC Fund. The Fund is used solely for SIPA liquidation proceedings and to support SIPC’s operational costs. See SIPA § 78ddd(a)(1). Should the Fund become insufficient to carry out the purposes of SIPA, the SEC may make a loan to SIPC through notes issued to the Treasury of up to \$2.5 billion. See SIPA § 78ddd(g), (h). In SIPC’s 43 year history, the Fund level has never dropped so low as to require a borrowing from the Treasury. As stated in the Budget, “the Budget does not project that SIPC will require use of these loans over the next ten years.” See Office of Mgmt. &amp; Budget, Exec. Office of the President, Budget of the United States Government, Fiscal Year 2013 (2012) (“Budget”) at 1407.</p> <p>Throughout SIPC’s history, SIPC has been both excluded and included in the Appendix of the Budget. For example, in FY 2007, SIPC’s line of credit with Treasury had an account in the Budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, the SIPC Fund was included as an account in the Budget, with adjustments going back to FY 2009. As far as SIPC is aware, no legislative changes in those years led to these changes of treatment.</p> <p>b. Disagree. Consolidation of a non-governmental private sector entity’s financial statements into an agency’s financial statements would be difficult when (1) the non-governmental entity’s financial statements are issued on a calendar year basis and not on the government’s fiscal year; and (2) the non-governmental entity’s financial statements are subject to an independent audit in accordance with private sector GAAP. For example, Congress expressly granted to SIPC the power to establish its fiscal year, which, by SIPC bylaw, is the calendar year in accordance with private-sector GAAP. SIPA § 78ccc(b)(9). SIPC’s standalone financial statements are audited in accordance with private sector GAAP by an independent auditor. The SEC is not involved in the day-to-day operation of SIPC. Thus, it would create a high burden on the SEC and its auditor to include SIPC’s financial statements within its own. Among other things, the SEC would have to reconcile any issues arising from the SIPC fiscal year difference. As the SEC points out in its comments, it is unlikely that the Commission’s auditor (the General Accountability Office) would be willing to rely on the work of SIPC’s independent auditor, adding work for its auditor and subjecting SIPC to another layer of audit.</p> |
| <p>#6 DOC CFO</p>   | <p>a. The Department of Commerce agrees with the inclusion principles. We believe they enhance transparency because they are inclusive, logical, and cover the entire population of entities that should be included for federal reporting. However, for the third inclusion principle, we would like clarification on the definition of “control” as to whether it includes organizations under temporary control or only those that are permanently controlled.</p> <p>b. The Department of Commerce believes the inclusion principles and related content are helpful and clear. These principles alleviate ambiguity in existing principles, including SFFAC 2.</p> <p>c. The Department of Commerce agrees that an organization should be included in the GPFRR, if it would be misleading to exclude it,</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | <p>despite it not meeting any of the three inclusion principles.</p> <p>d. The Department of Commerce agrees that the inclusion principles can be applied to all organizations to determine if they should be included in the government-wide GPFFR. Since the inclusion principles are based on indicators of control, they should be applicable to all organizations.</p>  |
| #7 SSA CFO   | <p>a. We agree with the inclusion principles as these principles provide a basis to decide which organization to include in the government-wide General Purpose Federal Financial Report (GPFFR) for financial accountability purposes. The “Federal Programs by Agency and Account” is a starting point for agencies to determine if an organization should or should not be included in the government-wide GPFFR. For organizations not listed in the “Federal Programs by Agency and Account,” financial statement preparers can use the other inclusion principles (majority ownership interest, control with risk of loss or expectation of benefit, misleading to exclude, and related parties) as a test to determine inclusion in the GPFFR.</p> <p>b. We believe the inclusion principles, and the related definitions and indicators, are helpful and clear. The inclusion principles provide a framework for decision-making and the related definitions and indicators provide additional information to aid preparers in rendering a decision for inclusion in the GPFFR. For instance, the “indicators of control” provides numerous indicators of whether or not the Federal Government controls an organization. The Appendix also provides helpful information that aids preparers in understanding the concepts of this Standard.</p> <p>c. We agree that an organization should be included in the GPFFR if it would be misleading to exclude it, even though it does not meet the inclusion principles. The inclusion principles are the framework to begin the process to decide if we should or should not include an entity in the GPFFR. We cannot expect these principles to cover every situation that could conceivably occur, especially given the complexities of our Federal Government. Adding the extra requirement to include an organization if it would be misleading to exclude, even if not meeting the inclusion principles, provides an extra dimension for consideration to ensure the GPFFR will include all pertinent and applicable entities.</p> <p>d. We agree that the inclusion principles can be applied to all organizations to determine whether the organization should be included in the government-wide GPFFR. The added information of related definitions and indicators helps further clarify if the entity belongs in the government-wide GPFFR. Financial statement preparers can apply the inclusion principles test to previously excluded organizations, such as the central banking system and Government Sponsored Enterprises. According to Statement of Federal Financial Accounting Concepts (SFFAC) 2, the central banking system was kept separate and independent of the other government functions and therefore was never included in the government-wide GPFFR. However, this Standard requires the comprehensive disclosure of financial information. If an organization is budgeted, owned, or controlled by the Federal Government, it should be included in the government-wide GPFFR.</p> |
| #8 NSF CFO   | a.-c. NO NSF COMMENT   |
| #8 NSF CFO<br><b>7. Other Organizations – April 2014</b> | d. NSF requests that FASAB further clarify the inclusion of Federally Funded Research and Development Centers (FFRDCs). In the case of the National Science Foundation, pursuant to the NSF Act (Public Law 81-507, amended by 42 USC (1861 – 1887)), provision 42 USC 1873, “The Foundation shall not, itself, operate any laboratories or pilot plants.” Although NSF legally considers and is noted as the sponsoring agency for four FFRDCs, as it relates to the intent of this ED, the Foundation’s inability to manage or operate the facilities makes them more equitable to contract or grant organizations. NSF requests that FASAB add language to this point in paragraphs 32 – 34.  |
| # 9 KPMG   | <u>General Structure Comments</u>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>Appears preference to maintain ownership principle. Board directed staff to consider implications with combining “in the Budget” with control. Staff also notes the Board considered the pros and cons of combining ownership and control in the early stages of the project.</p> | <p>The three principles in paragraph 21 should be reduced to two principles: (1) In the Budget and (2) Control with risk of loss or expectation of benefit. Based on the definition in paragraph 24 and footnote 12, the majority ownership interest should be considered a presumptive indicator of control instead of a stand-alone principle.</p>  |
| <p># 9 KPMG</p> <p><b>1. In the Budget- Dec 2013</b></p> <p><b>1.a. In the Budget- March 2014</b></p>  | <p><i>In the Budget</i></p> <p>i. The statement should indicate that this is a presumptive principle for consolidation. If an organization is included in the budget, it should be consolidated at the government-wide or component reporting entity level.</p> <p>ii. The exception related to federal financial assistance should be if the organization is included in the budget ONLY as a recipient of federal financial assistance. The standards should clarify whether these organizations require further evaluation against the second principle (Control) if the exception is met.</p> <p>iii. This section should include relevant information for the component reporting entities as well as the government-wide entity. Information from paragraphs 57 and 57 (a) should be included.</p>  |
| <p># 9 KPMG</p> <p><b>Open - Editorial, structural, or clarified in BfC</b></p> <p><b>Staff added clarifying language to bfc and beginning of CRE section to address item ii and vi.</b></p> <p><b>However, as the deliberated and</b></p>   | <p><i>Control with risk of loss or expectation of benefit (Control)</i></p> <p>i. The statement should indicate that this is a presumptive principle for an organization to be either consolidated or disclosed.</p> <p>ii. This section should include relevant information for the component reporting entities as well as the government-wide entity. Information from paragraph 58 would be included related to the component reporting entities.</p> <p>iii. This section should include the concept of exclusivity of control. We believe that control involves decision-making ability that is not shared with others. Therefore, we believe that consolidated and disclosure organizations would only be controlled by one entity. The ED currently indicates that disclosure organizations could be reported by multiple component reporting entities.</p> <p>iv. The indicators of control should be reordered for ease of application:</p> <p>1. Paragraph 29;</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p><b><i>considered the comment letters and testimony, the board agreed with the inclusion principles and overall structure of the ED. Further, many of these items or specific comments were clarified during the PH testimony and the board determined they did not want to pursue further and/or staff did not believe necessary to clarify further in the standard.</i></b></p> | <p>2. Paragraphs 32-34 (situations where control does not exist);</p> <p>3. Paragraphs 30-31 (persuasive indicators and other indicators), which would also include adding “Majority Ownership,” paragraphs 23 and 24, as a persuasive indicator of control.</p> <p>v. For those organizations that meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a consolidated and disclosure organization.</p> <p>vi. For those organizations that do not meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a misleading to exclude organization. We believe that an organization that meets these characteristics would be subject to related party disclosures.</p> <p><u>Detailed Comments</u></p> <p>We suggest the following revision to paragraph 20:</p> <p>“This Statement provides two principles for determining which organizations should be consolidated or disclosed in the government-wide and/or component reporting entity GPFFR. The statement also provides characteristics of a consolidated and disclosure organization, which should be applied in conjunction with the principles to distinguish between consolidated and disclosure organizations.”</p> <p><i>In the Budget</i></p> <p>i. We believe that for consolidation to be required control should exist. In keeping with the Board’s approach, we have maintained in the budget as a separate principle from control, on the basis that if an organization is in the budget (at the component reporting level or government-wide level) it is considered to be controlled by that reporting entity.</p> <p>ii. The statement should state which year’s budget document to consider when applying the principle.</p> <p>iii. Information from paragraph 57a related to the component reporting entity should be moved to this section.</p> <p>iv. Paragraph 57b provides another definition of in the budget by its reference to a congressional budget justification document. We believe references to this document should be removed for simplicity and consistency in the application of this statement.</p> <p><i>Control with risk of loss or expectation of benefit</i></p> <p>i. We believe that the principles should include the concept of exclusivity for purposes of identifying and reporting on consolidated and disclosure organizations. We recommend the following sentence be added to the end of paragraph 25 to incorporate the exclusivity concept:</p> <p>Control involves decision-making ability that should not be shared with others and, therefore, an organization can only be identified and reported as a consolidated or disclosure organization by one reporting entity.</p> <p>ii. Footnote 14 would not be needed based on the changes in our suggested structure.</p> |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <b>Staff agreed with comment iv and removed footnote 27.</b> | <p>iii. Footnote 16 appears to contradict paragraph 30a. Please clarify.</p> <p>iv. Footnote 27 should be deleted because it is confusing. The Bureau of Census is included in the budget of the Department of Commerce; therefore, it would not be subject to the evaluation of control.</p>  |
| # 9 KPMG<br><b><u>2. Misleading to Exclude- Dec 2013</u></b> | <p><i>Misleading to exclude</i></p> <p>i. Based on our belief that an organization that is misleading to exclude should only result in a related party disclosure, we suggest combining paragraphs 35-36 as follows:</p> <p>There may be instances when an organization does not meet the principles in paragraphs ____ yet the government-wide or component reporting entity GPFFR would be incomplete if information about the organization were excluded. Organizations should be subject to the disclosure requirements for related parties in the government-wide or component reporting entity GPFFR if the omission would be considered material to the reporting entity’s financial statements.</p> <p>ii. We believe that the concept of misleading to include should be deleted from the statement because it undermines the overall principles stated.</p>  |
| #10 Treasury OIG   | No Response  |
| #11 HUD CFO  | <p>a. HUD agrees with the first inclusion for an organization to be included in the government-wide GPFFR 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. Identification of an organization in the President’s Budget is the clearest evidence that an organization should be included in the government-wide report.</p> <p>HUD agrees with the concept that an organization in which the federal government holds a majority ownership interest typically provides 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.</p> <p>HUD agrees with the concept that an organization that is controlled by the federal government with risk of loss or expectation 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.</p> <p>b. HUD agrees that the inclusion principles, and the related definitions and indicators, are helpful and clear. 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. 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 organization to deliver</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | <p>goods and services.</p> <p>d. HUD agrees that the inclusion principles can be applied to all organizations, to determine whether such organizations should be included in the government-wide GPFFR. 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 organization.</p>   |
| <p>#11 HUD CFO</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>   | <p>c. HUD believes that the exposure draft does not provide enough information in paragraphs 35 – 36 and 61 – 62 to be able to 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. It would be helpful to provide examples of unique situations to enhance the preparers’ judgment so that the preparer and auditor can mutually agree that an organization should be included that was not otherwise incorporated as a result of the three principles.</p>   |
| #12 TVA CFO   | No response  |
| #13 NASA CFO  | <p>a. NASA agrees with the understanding that meeting any one of the 3 principles require that an organization is included in an agency’s financial statements and inclusion allows for disclosure or consolidation. The inclusion principles are reasonable criteria to determine the significance of the federal government’s relationship and involvement with an organization. The inclusion principles are consistent with the concepts of conclusive criterion and indicative criteria in SFFAC 2, paragraphs 41-46 that should be considered in the aggregate for defining a financial reporting entity in the Federal Government.</p> <p>b. Overall, NASA agrees that the inclusion principles and related definitions and indicators are helpful and provide guidelines by which to evaluate which organizations should be included in the GPFFR. The section titled, In The Budget, should include acknowledgement of the difference between an organization listed in an agency’s budget and one that is included in the budget but not specifically listed. Consideration may also be given to including a reference to the sections titled, Reporting On Organization – Consolidation Entities Or Disclosure Organizations and/or Principles for Inclusion in the Government-wide GPFFR, to point to more detailed discussion.</p> <p>c. NASA agrees with the concept that an organization should be included in the GPFFR if excluding it would be misleading. The concept of providing information that is not misleading is also applicable to the method used to present the organization’s financial information, disclosure or consolidation. Our rationale is based on SFFAC 2, Entity and Display, as provided in paragraph 38.</p> |
| <p>#13 NASA CFO</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>  | <p>Paragraphs 35-36 of the Statement discuss the concept of “Misleading to Exclude” for organizations that do not meet the inclusion principles. We recommend enhancing the Statement to provide more guidance that may include the criteria to determine “misleading to exclude” and the rationale for this consideration as it pertains to different types of organization</p>   |
| <p>#13 NASA CFO</p> <p><b>7. Other Organizations – April 2014</b></p> | <p>and specifically Federally Funded Research and Development Centers. (Organization types may include FFRDCs, museums, performing arts organizations, universities, or venture capital funds and/or include distinction by method of financing, management agreement, level of autonomy, or applicable regulations.)</p> <p>d. NASA agrees given that flexibility is allowed for different and distinct types of organizations and more guidance is provided related to the inclusion principles and how they relate to different types of organization.</p> <p>NASA requests that FASAB provide clarity regarding the inclusion principles specifically in relation to Federally Funded Research and Development Centers given the special circumstances that FFRDCs are mandated to operate</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #14 Department of Homeland Security CFO  | <p>a. Agree these principles are objective and could be consistently applied across government agencies.</p> <p>b. Agree, however some real life examples would be helpful and would deter subjectivity.</p>   |
| #14 Department of Homeland Security CFO<br><br><b>2. Misleading to Exclude- Dec 2013</b> | <p>c. Disagree, this catch all could be too subjective. We believe that the term “misleading” would need to be quantified.</p> <p>d. Agree, as long as the “misleading to exclude” is either removed or better defined with some objective measures.</p>   |
| #15 Nuclear Regulatory Commission OIG  | a. I agree with each of the inclusion principles. I believe that comprehensive accountability should be assessed through inclusion in the GPFFR in all cases where a federal entity exercises both financial and/or management control of another entity.  |
| #15 Nuclear Regulatory Commission OIG<br><br><b>2. Misleading to Exclude- Dec 2013</b>   | <p>b. I think the definitions and indicators are mostly helpful. However, the guidance around the “Misleading to Exclude” standard is missing clarity. I think more discussion with some examples around what it would mean to be misleading would, at a minimum, provide the practitioner with the intent of the standard.</p> <p>c. I agree with the standard in that the GPFFR should not be misleading. However, without more clarification, I am not sure how I would apply the standard. Maybe some examples or more discussion would be helpful.</p> <p>d. I agree that all organizations should be subject to the inclusion principles. Allow the inclusion tests to determine if the entity should be excluded, not just categorically exclude them. I think to do otherwise would increase the risk that the GPFFR could be misleading and not reflect comprehensive accountability.</p> |
| #16 Federal Reserve System   | No Response  |
| #17 TVA OIG  | No Response  |
| #18 DOD CFO  | <p>a. Agree. The inclusion principles conform to the conclusive and indicative criteria for including components in a reporting entity described in Statement of Federal Financial Concepts 2, Entity and Display. Control also discussed as a primary criteria within the Financial Accounting Standards Board Proposed Statement of Financing Accounting Concepts, The Reporting Entity.</p> <p>b. Agree. The inclusion principles, along with the illustrations in Appendix C, are understandable. Appendix C is especially helpful in demonstrating the nuances of the criteria.</p> <p>c. Agree. It would be misleading to exclude the organization if it does not meet the inclusion principles, as the consolidated financial statements would not be complete, accurate, or presented fairly.</p>  |
| #18 DOD CFO<br><br><b>7. Other Organizations – April 2014</b>                            | d. Agree. The inclusion principles are comprehensive and include all potential organizations that the government may be responsible for consolidating whether by budget authority, ownership, or control. It is suggested, however, that some additional guidance be added to distinguish museums consolidated under this proposed standard and museums disclosed under Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SSFAS) 29, Heritage Assets and Stewardship Land. There may appear to be some conflicting guidance   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|--------|---|
| Closed | Editorial comments considered w/ June Draft |
|--------|---|

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|   | in reading both standards.   |
| #19 Commodity Credit Corporation CFO  | <p>a. Agree with the inclusion principles outlined in the exposure draft. All of the principles follow GAAP.</p> <p>b. The inclusion principles are stated in a clear manner which allows the determining official to make determination and document the reasoning.</p> <p>c. Yes the definition provided in the misleading to exclude does not provide enough determining factors to allow decision makers to clearly make the decision to include or exclude. The lack of criteria would leave this open for audit disagreements. Paragraph 63 provides further criteria of the misleading to exclude—this would appear to be similar to the Parent/Child reporting outlined in the OMB Circular A-136.</p> <p>d. Yes the inclusion principles should be applied across the Government. Exclusions for the “other” Federal entities could lead to misstatements. It is possible that some Government entities may qualify for the disclosure reporting rather than full inclusion for consolidated statements.</p>  |
| #20 Joseph H. Marren<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2- March 2014</u></b> | The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government’s consolidated financial statements will remain substantially misleading.  |
| #21 HUD OIG   | We support the Board’s position on questions 1 – 4 and 6-11  |
| #22 HHS OIG   | <p>a. The inclusion principles as presented provide a good basis for an organization to be included in the government-wide General Purpose Federal Financial Report (GPFFR). While the Budget of the United States is a good starting point, financial statement preparers and auditors can use the other inclusion principles to determine if an organization controlled or managed by the Federal government, but not necessarily noted in the budget, should be included in GPFFR.</p> <p>b. The definitions and indicators for the inclusion principles seem to be very clear and helpful. They provide very good explanations and give the appropriate guidance for preparers and the auditors to determine if organizations should be included in government-wide GPFFR.</p> <p>c. All organizations should be included in the government-wide GPFFR if it would be misleading not to include them even though they do not meet one of the three inclusion principles. Some organizations that do not necessarily fall under the inclusion principles could put the overall Federal government at risk. The decision to include or not include an organization should be decided in consultation between the preparer of the government-wide GPFFR (Treasury’s Fiscal Service) and the auditor (Government Accountability Office (GAO)).</p> <p>d. The inclusion principles should be applied to all organizations to determine if they should be included in GPFFR. As indicated in the response to number Q1.c, organizations that can put the Federal government at risk should be disclosed and included in the GPFFR.</p> |
| #23 SEC CFO<br><b><u>1.In the Budget – December 2013</u></b>  | <p>a. Disagree. The SEC believes that the first proposed inclusion principle, “included in the Budget ... schedule entitled “Federal Programs by Agency and Account” (“in the Budget”), appears to have more characteristics of a rule than a principle.</p> <p>The proposed standard would rescind paragraph 42 of SFFAC 2 and replace it with what the SEC believes to be a narrower definition of a non-federal entity, with the result that it would appear to become a rule rather than a factor to</p>   |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

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| <p><b><u>1.a. In the Budget-March 2014</u></b></p> | <p>consider.</p> <p>Inclusion or exclusion from the Budget is subject to change and based upon decisions over which FASAB has little or no control and which may be unrelated to the principles upon which FASAB’s reporting requirements are based.</p> <p>In previous issuances the Board has explicitly not permitted the applicability of reporting requirements to be based upon classifications that are solely under the jurisdiction of other organizations, such as the Treasury Department and/or the Office of Management and Budget (OMB), without regard to FASAB’s intent for principle-based reporting requirements.</p> <p>For example, the provisions of SFFAS 27 Identifying and Reporting Funds from Dedicated Collections, and SFFAS 31, Reporting on Fiduciary Activities, support the Board’s principle-based requirements by explaining that federal reporting entities should not base their classification and reporting for either (a) funds from dedicated collections or (b) fiduciary activities, respectively, based upon the fund type that is assigned and used for reporting funds to Treasury and/or OMB.</p> <p>Paragraph 7 of SFFAS 27, (bold added) states that:</p> <p>The following chart shows fund types used in reporting to the Treasury Financial Management Service (FMS) and the Office of Management and Budget (OMB). It is intended only to show the general relationship between fund groups and [funds from dedicated collections] as classified in this statement. Regardless of classification for reporting to the Treasury FMS or the OMB, funds meeting the definition of [funds from dedicated collections] promulgated in this standard should be so classified and funds not meeting the definition should not be so classified.</p> <p>Similarly, paragraph 7 of SFFAS 31 (bold added) states that:</p> <p>Numerous “fund groups” are used in reporting to the Treasury FMS and the OMB. For example, “deposit funds” may be used for monies that do not belong to the Federal Government. Regardless of how a fund group may be classified in reporting to the Treasury FMS or to the OMB, only those activities that meet the definition of fiduciary activity promulgated in this standard are subject to the reporting requirements of this standard. Activities that do not meet the definition of fiduciary activities promulgated in this standard are not subject to the reporting requirements of this standard. Deposit funds that do not meet the definition of fiduciary activities, and therefore are not disclosed in the fiduciary note disclosure, should be recognized in the principal financial statements.</p> <p>An example of how the classification of “in the Budget” is subject to change is the status of the Tribal Trust Funds. The Tribal Trust Funds were included in the Budget of the U.S. Government and the Department of the Interior from fiscal year (FY) 1969 through FY 1999, but excluded in fiscal years subsequent to FY 1999. Although the Tribal Trust Funds consist of assets that are owned by private individuals and not by the federal government, the Tribal Trust Funds were nevertheless included in the Budget for a period of 30 years. As noted in the FY 2000 Budget, approximately \$2.1 billion in trust funds assets were reclassified in FY 2000 from “on-budget” to “non-budgetary.” This change illustrates the risk of using “in the Budget” as a primary principle/rule for FASAB reporting requirements that are intended to be principle-based.</p> |
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Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

Another example is the Securities Investor Protection Corporation (SIPC), which is currently listed in the SEC’s section of the Budget. Throughout SIPC’s history, SIPC has been both included and excluded from the Budget. For example, in FY 2007, SIPC’s line of credit with Treasury had an account in the Budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, SIPC was included in the Budget, with adjustments going back to FY 2009. We are aware of no substantive legislative changes that might explain these changes.

Accordingly, the SEC believes that “in the Budget” is insufficiently aligned with the other two inclusion principles to be put forth as a primary “principle” but rather should be considered as an indicator of control, and taken into consideration together with other factors.

SEC Recommendation 1(a): In order to provide for a principle-based standard by which the intent of the Board would be consistently applied in the future, regardless of future classification decisions by organizations other than FASAB, the SEC recommends that:

- paragraph 39 should be deleted
- being “in the Budget” should be included as an “indicator of control” rather than a primary principle. This would be similar to the way SFFASs 27 and 31 provide that federal reporting entities may consider the “fund type” (such as special fund, trust fund, or deposit fund) when evaluating funds, but the decisive factor for classification should be the application of the principles established by SFFAS 27 and 31. In addition, the SEC believes that this change would be more consistent with existing guidance in SFFAC 2.
- Paragraph 22 should be amended as follows:

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 unless it is a non-federal organization receiving federal financial assistance.~~<sup>11</sup> ~~Any listed non-federal organizations receiving federal financial assistance should be~~ assessed against the next following 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.

Finally, a definition of “non-federal organization” is necessary for evaluating an organization regarding the “in the Budget” provision, which provides that an organization that is in the Budget should be included, “unless the organization is a non-federal organization receiving federal financial assistance.” However, the proposed definitions do not include a definition of the term “non-federal organization.”

SEC Recommendation 1(b):

As noted in SEC Recommendation 1(a), the SEC believes that “in the budget” should be an indicator of control rather than a rule. The SEC also believes the following indicators should be added after paragraph 32 in the section “Situations Where Control Does Not Exist.:

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>Examples of characteristics that may indicate a lack of control include but are not limited to:</p> <ul style="list-style-type: none"> <li>• The organization’s assets do not meet the definition of federal “assets” in FASAB Statement of Federal Financial Accounting Concepts (SFFAC) 5 because they are not available for use or sale by any components of the federal government.</li> <li>• The organizations assets, if consolidated or combined with the assets of a federal component entity, could not be classified as either “entity assets” or “non-entity assets” as defined in Statement of Federal Financial Accounting Standards (SFFAS) 1, because the organization’s assets are neither “available for use” by nor “held by” the federal entity that would be required to consolidate the other organization’s assets.</li> <li>• The organization’s liabilities do not meet the definition of “liabilities” in SFFAC 2 because the organization’s liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government’s general tax revenues.</li> <li>• The organization is funded by exchange revenues that may be augmented at the discretion of the organization without any Congressional action or approval needed.</li> <li>• The organization is not required to follow the hierarchy of federal GAAP in paragraphs 5-7 of SFFAS 34 and is not currently audited by the Inspector General of any federal entity.</li> <li>• The organization’s employees are private-sector employees who are not subject to civil service rules or eligible for federal employee retirement programs such as CSRS or FERS. The organization’s employees cannot incur liabilities on behalf of the federal government because legislation provides that they are not authorized to act as employees or agents of the federal government.</li> <li>• The organization issues audited financial statements prepared in accordance with private-sector generally accepted accounting principles (GAAP) that are publicly available.</li> <li>• The organization has a fiscal year that is different from the federal government’s fiscal year and does not report either September 30 information or transactions that would be considered “intragovernmental” if the organization was to be considered part of the federal government.</li> </ul> <p>b. No. The proposed standards include numerous “pro” and “con” indicators, but neither the proposed standards nor the illustrations in the Appendix provide a clear indication of which factors are or should be selected to be the deciding factor(s) or how to go about making this selection. The only factor given priority (“in the Budget”) is a factor that, as mentioned in the response to Q1a, has characteristics of a rule rather than a principle.</p> <p>The SEC is concerned about being required to include in its financial statements, as basic information subject to audit, financial data for organizations that do not report to the Treasury Department, and which the SEC’s auditor (the Government Accountability Office (GAO)) does not currently audit. For example, in the SEC’s section of the Budget, there are three organizations, the Public Company Accounting Oversight Board (PCAOB), the “Payment to Standard Setting Body” (currently the Financial Accounting Standards Board (FASB)) and the Securities Investor Protection Corporation (SIPC). Each of these organizations is incorporated as a non-profit organization and issues calendar-</p> |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

year financial statements in accordance with private-sector GAAP.

Because none of these three organizations currently report budgetary data to the Treasury Department or to the Office of Management and Budget (OMB), the Budget includes the following footnote for each of these three organizations: “Because [this organization] does not report budgetary data to the Treasury, budget estimates were derived from [this organization’s] financial data.”

Using “in the budget” as a primary indicator/rule for inclusion would likely create the presumption that all three organizations should be included, even though other factors would indicate against inclusion, such as the fact that these organizations:

- have assets that do not appear to meet the definition of “assets” in FASAB Statement of Federal Financial Accounting Concepts (SFFAC) 5 because they are not available for use or sale by the federal government (except for the quasi-federal organization that is holding the assets);
- (if consolidated by a federal component reporting entity), have assets that would not appear to meet the definition of either “entity assets” or “non-entity assets” in Statement of Federal Financial Accounting Standards (SFFAS) 1, relative to the federal component entity, because the assets are neither “available for use” by nor “held by” the federal component entity that would be required to consolidate the quasi-federal entity;
- have liabilities that do not appear to meet the definition of “liabilities” in SFFAC 2 because the liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government’s general tax revenues;
- are funded by exchange revenues that in some cases may be augmented at the discretion of the organization without any Congressional action or approval needed;
- issue audited financial statements prepared in accordance with private-sector generally accepted accounting principles (GAAP) that are publicly available;
- have a fiscal year that is different from the federal government’s fiscal year and are not required to report either September 30 information or transactions that would be considered “intragovernmental” if these organizations were to be considered part of the federal government; and
- have employees that are private-sector employees, not subject to civil service rules or eligible for federal employee retirement programs such as CSRS or FERS.

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

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| <p>#23 SEC CFO</p> <p><b>4. Term for Disclosure Organization-- Dec 2013</b></p> | <p>The proposed standard also does not clearly define “disclosure organization” and “consolidation entity” – in particular, the distinction between the terms “entity” and “organization” (within these phrases, as well as throughout the document). The distinction between the two terms is not explained, and there is no explanation as to why a different term is used for the two types of organizations. Throughout the document, the term “organization” is used most often, but paragraph 38 indicates that some organizations are referred to as “[consolidation] entities,” but paragraphs 38-39 still use the word “organization” but clearly are referring to “consolidation entities.” There is no explanation of why some “organizations” are also “entities,” but others (“disclosure organizations”) apparently are not. The term “organization” should be used consistently throughout the document for everything except for references to a primary federal reporting entity (government-wide or component level).</p> <p>In addition, to address inconsistent use of the terms “entity” and “organization,” that the term “organization” should be used consistently throughout the document for everything except for references to a primary federal reporting entity (government-wide or component level) that would be considering whether to include an “organization” in its financial statements. This would include changing “consolidation entity” to “consolidation organization.”</p>  |
| <p>#23 SEC CFO</p> <p><b>3. Disclosure Entity Issues- March 2014</b></p>        | <p>Finally, in situations where the other organization issues stand-alone audited financial statements in accordance with private-sector GAAP, and may also have a different fiscal year, the federal component entity’s auditor may not be willing to rely on the work of the other organization’s auditor. In such cases, it would not be cost-beneficial for the component federal entity to engage its auditor to audit or review the other organization’s financial records in order to include the required information in its audit opinion. In addition, in situations where the federal reporting entity is not involved in the other organization’s day-to-day operations, the federal reporting entity often has no way of knowing whether there may be significant changes in information in the intervening period between the issuance date of the other organization’s financial statements and the issuance date of the federal component entity’s financial statements. For this reason, the federal component entity’s management should only be required to report significant changes that it is aware of. The SEC recommends the following:</p> <ul style="list-style-type: none"> <li>• Add the following additional language to Paragraph 73e, (list of required disclosures): <ul style="list-style-type: none"> <li>(e) a discussion of the disclosure organization’s key financial indicators and changes in key financial indicators <u>or information, such as a website link, to the disclosure organization’s most recent audited financial statements.</u></li> </ul> </li> <li>• Add the following additional language to paragraph 76: <p><u>If the component entity is aware of</u> significant changes in information occurring from the end of the disclosure organization’s reporting period, <u>such changes</u> should be reported consistent with the requirements of SFFAS 39, <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards.</i></p> </li> </ul> |
| <p>#23 SEC CFO</p> <p><b>2. Component</b></p>                                   | <p>c. Disagree. The ED appears to be somewhat biased towards inclusion. Paragraphs 35-36 of the ED and the decision tree in Appendix B provide for “misleading to exclude” but do not provide for “misleading to include.” A bias toward inclusion may result in the inclusion (by either consolidation or disclosure) of revenues and assets that are not</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p><b>Reporting Issues- March 2014</b></p>  | <p>revenues or assets of the federal government.</p> <p>SEC Recommendations 1(c): Add paragraphs on “misleading to include” that are parallel to paragraphs 35-36 on “misleading to exclude.”. If the decision tree in Appendix B is retained in the final SFFAS, it should be edited to reflect this recommendation.</p> <p>d. Disagree. See SEC comments and recommendations in response to Q1a, b, and c.</p>  |
| <p>#24 DOL OIG</p>  | <p>a. We agree with each of the inclusion principles.</p> <p>b. We agree that the inclusion principles and related definitions and indicators are helpful and clear.</p> <p>c. We agree that an organization not meeting one of the inclusion indicators should none the less be included if it would be misleading to exclude it. This is necessary to ensure the full viability of this standard, as every situation cannot be anticipated.</p> <p>d. We agree that the inclusion principles can be applied to all organizations.</p>   |
| <p>#25 Administrative Office of the US Courts</p> <p><b><u>3.Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p> | <p>In several places the Federal Accounting Standards Advisory Board (FASAB) exposure draft proposes that the Judicial Branch should be included in the government-wide General Purpose Federal Financial Report (GPFFR) and required to submit financial statements prepared using FASAB standards. We strongly disagree.</p> <p>The exposure draft represents a laudatory effort by the FASAB to further full reporting on the federal government's budget. However, there are valid, substantial, and vitally important reasons why the Judiciary has not been included in the GPFFR. Like the Legislative Branch, the Judiciary's financial operations and structure are based on different statutory authorities than the Executive Branch, and consistent with these authorities, the Judiciary has developed its own policies and processes for financial management and accountability. The Judiciary has established accounting and financial reporting systems based on these policies and processes, and the Judiciary prepares financial reports in accordance with an Other Comprehensive Basis of Accounting.</p> <p>Furthermore, the GPFFR was created specifically for the particular business operations of the Executive Branch. Attempting to apply the GPFFR to the Judiciary would be a nearly impossible undertaking due to the significant differences between the branches. The proposed standard identifies the Judiciary for inclusion in the government-wide GPFFR under the (in the Budget) inclusion principle. When considering the concept of "misleading to exclude," the Judiciary continues to represent an immaterial line in the Budget. Therefore, excluding the Judiciary from the GPFFR would not result in a material misstatement of the GPFFR.</p> <p>In conclusion, the required additional budgetary resources needed to convert the Judiciary's existing accounting and financial reporting structure to comply with FASAB standards would result in substantial costs with no material benefit to the primary intended users of the GPFFR. We therefore ask that the Judiciary be excluded from the proposal.</p> |
| <p>#26 GSA CFO</p>  | <p>a. GSA agrees that Federal agencies should include information in their financial statements so that readers of the financial statements are not misled. However, it seems this ED is addressing symptoms of much larger government wide epidemic. The government continues to expand its financial reach and control outside of federal entities. We need to focus on a cure for the "disease" instead of adding band aids to the symptoms.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <p>#26 GSA CFO<br/>Staff notes there is an active project on PPP.</p>  | <p>b. GSA does not think the inclusion principles, definitions and indicators are completely clear. Please clarify how Public Private Partnerships fit.</p>   |
| <p>#26 GSA CFO<br/><b><u>2. Misleading to Exclude- Dec 2013</u></b></p>  | <p>c. This concept is too vague. Please provide examples of something that might be misleading to exclude even though it does not meet one of the three inclusion principles.</p>   |
| <p>#27 GWSCPA FISC<br/><b><u>5. "Temporary" -- Dec 2013</u></b><br/><b><u>1b. "Temporary"- March 2014</u></b></p>                                      | <p>The FISC agrees with the three inclusion principles listed in the ED, but suggests that the second and third inclusion principles be expanded to indicate that relationship must be other than temporary in nature between the federal government and the organization when the ownership interest or risk of loss or expectation of benefit principles are met. Therefore, we suggest that the second and third inclusion principles be modified to state:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest, and the federal government's majority ownership interest is other than temporary in nature.</li> <li>• An organization that is controlled by the federal government with risk of loss or expectation of benefit, and the federal government's control of the organization is other than temporary in nature.</li> </ul> <p>In instances in which the relationship is temporary in nature, we suggest that the federal government's relationship with the federal government's ownership interest and/or estimated risk of loss or expectation of benefit as of the balance sheet date be disclosed in the notes to the financial statements in the GPFRR.</p> <p>The FISC agrees that the inclusion principles should be applied to the entities identified in the Board's question for comment.</p> |
| <p>#28 Joyce Dillard<br/>Staff notes there is an active project on PPP. The inclusion principles otherwise should be applied to all organizations.</p> | <p>We agree with each of the inclusion principles.</p> <p>The principle:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest</li> </ul> <p>may need further explanation. Public Private Partnerships may be formed. How is that defined under this principle? Are Memorandums of Understanding MOUs included as ownership interest as participation is a controlling interest factor.</p> <p>The principle:</p> <ul style="list-style-type: none"> <li>• An organization that is controlled by the federal government with risk of loss or expectation of benefit</li> </ul> <p>Are Memorandums of Understanding MOUs included in this category?</p> <p>Do you consider non-profit organizations requiring Federal approval for that tax-exempt status as being controlled by</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>the federal government and approve the Mission Statement?</p> <p>We are trying to ascertain the use of the non-profit corporation as a substitute for a government agency. Would the non-profit substitute be misleading because of the dependence of tax funding to operate that government-substituted function?</p> <p>We believe the Inclusion Principles should apply all organizations. The People deserve to know who their representatives are, and through these organizations, that representation is masked.</p> <p>The People must be able to petition their government, and these financial mazes make it extremely difficult.</p>  |
| #29 DOL CFO  | No Comment  |
| #30 Intelligence Community                                       | <p>a. We agree the inclusion principles adequately encompass the characteristics of most organizations that should be included in the government-wide GPFFR based upon their financial, organizational, and operational impact on the federal government. We agree with each of the inclusion principles. Two of the three principles relate to majority ownership and control, which are concepts commonly applied in the public sector to define the reporting entity. The third concept, budget inclusion, is a reasonable test since the US Budget approval passes through Congress and the President, which implies some level of government involvement with the entity and should be considered.</p> <p>b. We believe the inclusion principles, and the related definitions and indicators, are helpful and clear. The definitions promote a thorough understanding of each concept, while the indicators serve as examples to further assist the practitioner in the determination process.</p> <p>c. We agree 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. Generically speaking, the objective of financial reporting is to provide stakeholders with information that is useful in the decision-making process. Therefore, it is reasonable to conclude that misleading financial reports would hamper that objective.</p> <p>d. We agree the inclusion principles can be applied to all entities and should be.</p> |
| #31 AGA FMSB   | <p>a. The FMSB agrees with the inclusion principles proposed by the FASAB. We agree that a principles based approach is superior to a rules based approach. This provides a longer lasting solution to the issues under consideration and aligns with the use of professional judgment. Regarding the three inclusion principles, we find that the three principles align well with the GASB principles.</p> <p>b. We believe that the inclusion principles and the related definitions are helpful and clear. In our response we have offered some areas where we believe improvements can be made, however the definitions and indicators are clear and understandable.</p> <p>d. The FMSB agrees that the inclusion principles can be applied for such determinations.</p>   |
| #31 AGA FMSB<br><b><u>2. Misleading to Exclude- Dec 2013</u></b> | <p>c. Yes, we agree that an organization should be included in the GPFFR if it would be misleading to exclude it. This provides a safe haven for significant exceptions to the principles should they arise. However, as stated in our comments, we believe that additional guidance should be included in the final document.</p>  |
| #32 NSB  | No Response   |
| #33 Treasury Bureau of Fiscal Service (FMS)                      | <p>a. Agree – with each of the 3 inclusion principles</p> <p>b. Yes – definitions/indicators are helpful and clear</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|   | d. Agree – apply on the basis of the 3 inclusion criteria and misleading to exclude principle  |
| #33 Treasury Bureau of Fiscal Service (FMS)<br><b><u>2.Misleading to Exclude- Dec 2013</u></b>      | c. Agree – include if it would be misleading to exclude, even if qualifying criteria to include are not met (providing examples of instances where it would be “misleading to exclude” would be helpful in guiding applicable primary reporting entities)  |
| #34 NRC CFO   | a. Agree with reporting/consolidation entities and ownership interest or control should be disclosure only.<br>b. Yes  |
| #34 NRC CFO<br><b><u>2.Misleading to Exclude- Dec 2013</u></b>                                      | c. Yes, but only as a disclosure and not as a consolidation entity.  |
| #34 NRC CFO<br><b><u>7. Central Bank- Dec. 2013</u></b><br><b><u>March 2014</u></b>                 | d. Disagree, as the Federal Reserve System is independent from control by the President and Congress.  |
| #35 FAF<br><b><u>1. In the Budget- Dec 2013</u></b><br><b><u>1a. In the Budget – March 2014</u></b> | <p>The Exposure Draft sets forth three basic inclusion principles for determining whether an organization should be included in the government-wide GPFFR.<sup>2</sup> As described in greater detail below, we recommend that the inclusion principles be revised to either eliminate or modify the scope of the inclusion principle relating to an organization that is “in the Budget” – that is, an organization with an account or accounts listed in the <i>Budget of the United States Government: Analytical Perspectives – Supplemental Materials</i> schedule entitled “Federal Programs by Agency and Account.” Our view with respect to this matter is based on the particular circumstances of the Financial Accounting Standards Board (the “FASB”), one of the standard-setting bodies within the Financial Accounting Foundation (the “FAF”), and similarly situated organizations.</p> <p>Although the FASB has an account listed in the Budget, we believe that the inclusion principle requiring the FASB to be included in the government-wide GPFFR solely because it is in the Budget would be inconsistent with the general concepts relating to inclusion set forth in the Exposure Draft, and would potentially undermine the integrity and utility of the GPFFRs. We do not believe that the objectives of the Exposure Draft would be met if organizations that do not receive taxpayer funds, and are not owned or operationally controlled by the federal government, are included in the GPFFR.</p> <p><u>Background</u></p> |

<sup>2</sup> The Exposure Draft would also require certain other organizations to be included in the government-wide GPFFR if excluding them would be misleading.

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>The FAF is a Delaware nonprofit non-stock corporation, incorporated in 1972, which was created for the purpose of providing a corporate structure for the FASB, the body whose financial accounting and reporting standards for nongovernmental entities have been recognized as authoritative by the American Institute of CPAs (“AICPA”) and the U.S. Securities and Exchange Commission (“SEC”). The structure of the FAF and the FASB reflects the view that a standard-setter should be independent from preparers of financial statements, from accounting and auditing firms, and from political or governmental influence. This independence is necessary to assure that the interests of the users of financial statements remain paramount, and has been critical to the integrity of our financial and capital markets.</p> <p>Prior to the passage of the Sarbanes-Oxley Act of 2002 (“SOX”), concern was expressed that the objectivity and independence of the FAF and the FASB could be affected if their funding was dependent upon groups having interests in the standard-setting process. Although the FAF derived some revenues from sales and licensing of its publication, the FAF’s principal revenues resulted from voluntary contributions. This concern was addressed in Section 109 of SOX, which provided that, going forward, the FASB would receive its funding from mandatory accounting support fees assessed on public companies.<sup>3</sup> Section 109 of SOX states that “[a]ccounting support fees and other receipts of ... such standard-setting body shall not be considered public monies of the United States.” Moreover, the Rules of Construction set forth in Section 109 provide that “[n]othing in this section shall be construed to render [the FASB] subject to procedures in Congress to authorize or appropriate public funds....”<sup>4</sup></p> <p>In addition to not being dependent upon governmental appropriations, neither the FAF nor the FASB is subject to the operational control of the federal government. The FAF is governed by a Board of Trustees consisting of from 14 to 18 members, none of whom is a federal government employee. A Trustee’s term is generally five years, and new FAF Trustees are appointed by the FAF’s Board of Trustees. The Board of Trustees, in turn, appoints the members of the FASB. Although the FASB has a cooperative working relationship with the SEC and with other federal governmental organizations, and governmental representatives regularly attend meetings of the FASB’s advisory committees and consult with the FASB with respect to standards and initiatives, the SEC does not operationally control the FAF or the FASB.<sup>5</sup></p> <p>For reasons the FAF does not fully understand, the Office of Management and Budget (the “OMB”) has included the FASB in the Budget.<sup>6</sup> The line item in the Budget with respect to the FASB refers to mandatory appropriations and</p> |
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<sup>3</sup> These fees are not assessed and collected by the federal government, but are assessed and collected by the Public Company Accounting Oversight Board (“PCAOB”) pursuant to a contractual arrangement between the FAF and the PCAOB.

<sup>4</sup> The independence of the FASB budget was critical to Congress. See 148 CONG. REC. S7355 (Jul. 25, 2002) (statement of Sen. Enzi): “We did something marvelous for the FASB. We made sure of its independence. One way we made sure of its independence, besides citing in the law, was to make sure FASB has independent funding. They will not have to come to Congress with a budget. And they will not have to go to corporate America for funding. They will get independent funding to be able to do the job they need to do. That will inhibit us from trying to change what they are doing in setting accounting standards.”

<sup>5</sup> Although pursuant to Section 109 of SOX, the SEC is required to determine annually that the FASB accounting support fee is within the parameters prescribed by Congress, the SEC does not have authority, and is not required, to approve the FASB budget.

<sup>6</sup> The *Budget of the U.S. Government: Analytical Perspectives-Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” (Schedule 32-1); referring to the FASB as the “Standard Setting Body” (Account 527-00-5377)).

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>mandatory outlays; as we believe is clear from the language in Section 109 of SOX, however, the FASB does not receive any appropriations or any outlays from the federal budget.<sup>7</sup></p> <p><u>The Exposure Draft</u></p> <p>As noted above, the FASAB issued the Exposure Draft to provide principles to guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity’s GPFFR for financial accountability purposes. The Executive Summary of the Exposure Draft sets forth the principal conceptual underpinning of the Exposure Draft, stating that the government-wide GPFFR should include all organizations:</p> <ol style="list-style-type: none"> <li>1. budgeted for by elected officials of the federal government,</li> <li>2. owned by the federal government, or</li> <li>3. controlled by the federal government with risk of loss or expectation of benefits.<sup>8</sup></li> </ol> <p>When any of these conditions exists, the FASAB believes that information regarding the organization is necessary to provide accountability.</p> <p>Having stated the above three conditions, the Exposure Draft goes on to set forth (in paragraph 21) three principles for inclusion in the government-wide GPFFR. The first inclusion principle refers to an organization that is “in the Budget,” which is defined in paragraph 22 as an organization with an account or accounts listed in the Budget.<sup>9</sup> The Exposure Draft creates an exception with respect to a non-federal organization receiving federal financial assistance. Any non-federal organization receiving federal financial assistance is to be evaluated on the basis of the two additional inclusion principles (the “majority ownership interest” principle and the “control with risk of loss or expectation of benefit” principle). However, the Exposure Draft does not define the term “non-federal organization,” and the term “federal financial assistance” is tied to the definition of the term in the Single Audit Act Amendments of 1996, such as grants, loans, etc., which the FASB does not receive.<sup>10</sup></p> <p>In discussing the basis for its conclusion that an organization with an account included in the Budget should be included in the government-wide GPFFR, the Exposure Draft states (in paragraph A12) that the:</p> <p style="padding-left: 40px;">“Identification of an organization in the President’s Budget is the clearest evidence that an organization 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.</p> |
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<sup>7</sup> It should be noted that notwithstanding the explicit statutory language providing that the accounting support fees do not constitute public monies or public funds, the OMB has determined that the FASB is subject to sequestration.

<sup>8</sup> The Exposure Draft also provides guidance regarding the circumstances when consolidated financial statements would be appropriate for an organization in the GPFFRs (“consolidation entities”), or when disclosure would be appropriate (“disclosure organizations”).

<sup>9</sup> Although the Exposure Draft refers to inclusion in the Budget as a “principle,” it appears to us to be more in the nature of a rule, requiring an entity to be included in the GPFFR if it is in the Budget.

<sup>10</sup> It seems anomalous to us that the FASB may not be entitled to rely on this exception (and therefore may be required to be included in the GPFFRs) precisely because it does not receive any form of federal financial assistance.

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|   | <p>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].”</p> <p>The Exposure Draft appears to take the view that inclusion in the Budget is equivalent to the first condition referred to above, that an organization is “budgeted for by elected officials of the federal government.” However, as the circumstances of the FASB indicate, there may be accounts included in the Budget which do not receive federal appropriations, for which elected officials are not accountable, and in which the federal government has no ownership interest and little or no operational control. Accordingly, a rule that inclusion in the Budget requires an organization’s financial information to be included in the GPFFRs may not reflect an appropriate consideration of the nature of organizations included in the Budget.<sup>11</sup> An inclusion principle that would require an entity in the Budget to be included in the GPFFRs therefore appears to be at odds with the concepts underlying the Exposure Draft, including the acknowledgement that an absence of federal funding, operational control or supervision should not result in an entity being within the scope of the GPFFRs.</p> <p>We therefore recommend that the FASAB revise the proposed statement to eliminate the principle that inclusion of an organization in the Budget results in the organization being included in the GPFFRs.<sup>12</sup> As an alternative, the FASAB could expand the proposed exception to the Budget criterion beyond the scope of entities that receive federal financial assistance under the Single Audit Act Amendments of 1996 to refer as well to organizations that are not under federal governmental operational control or supervision, and which do not receive federal funds. Either such revision would avoid an anomalous result of including wholly independent entities within the GPFFRs, undermining their integrity and utility.</p> |
| <p>#36 Treasury CFO<br/><b><u>5. “Temporary” -- Dec 2013</u></b><br/><b><u>1b. “Temporary” March 2014</u></b></p> | <p>a. Agree. While we generally agree with the concept of these inclusion principles, we believe the ownership and control principles described in paragraphs 23-28 should be expanded to indicate that the relationship must be other than temporary in nature between the federal government and the organization in order for an organization to be included in the GPFFR. Therefore, we suggest that the second and third inclusion principles be modified to state:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest and the federal government’s majority ownership interest is other than temporary in nature.</li> </ul>  |

<sup>11</sup> We assume that, even were the FASB to be included in the GPFFRs, it would not be deemed to be a consolidation entity. As the Exposure Draft states, “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.” We also believe, though, that the FASB should not be considered to be a “disclosure organization,” on the basis that the absence of any governmental ownership, or any operational governmental control, should not result in the FASB being within the scope of the GPFFRs in any manner. As the Exposure Draft states, “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 [inclusion] principles. In such cases, the organization may be excluded.” If there is no federal governmental ownership or operational control of an entity, and the entity does not receive federal funds, there would be no justification for including the entity within the scope of the GPFFRs; indeed, to do so would be misleading. The proposed “misleading to include” criteria do not clearly reflect this consideration, and the Exposure Draft states without support that instances when organizations can be excluded are “rare.”

<sup>12</sup> We defer to the FASAB as to how an elimination of the “in the Budget” principle should be reflected. For example, the FASAB may determine that inclusion in the Budget is merely one of several factors to be considered in evaluating whether an organization should be included in the GPFFRs.

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|  | <ul style="list-style-type: none"> <li>An organization that is controlled by the federal government with risk of loss or expectation of benefit, and the federal government’s control of the organization is other than temporary in nature.</li> </ul>  |
| <p>#36 Treasury CFO</p> <p>Appears preference to maintain ownership principle. Board directed staff to consider implications with combining “in the Budget” with control. Staff also notes the Board considered the pros and cons of combining ownership and control in the early stages of the project.</p> | <p>Additionally, we do not believe that the “majority ownership interest” should be a separate principle, given that federal government entities generally do not hold majority ownership interests in other organizations. Though Treasury currently possesses a majority ownership interest with certain organizations as a result of federal interventions, such relationships are considered temporary in nature and therefore are not consolidated in Treasury’s consolidated financial statements. Accordingly, we believe consideration should be given to deleting “majority ownership interest” as a separate principle and, instead, incorporating it as part of the “control with risk of loss or expectation of benefit” principle.</p>  |
| #36 Treasury CFO   | b. Yes. We believe the inclusion principles, and related definitions and indicators, are helpful and clear.  |
| <p>#36 Treasury CFO</p> <p><b><u>2.Misleading to Exclude- Dec 2013</u></b></p>   | <p>c. Agree. We believe that an organization not meeting the criteria for inclusion based upon the three inclusion principles specified in paragraph 21 should still be considered for inclusion in the GPFFR if it would be misleading to exclude. Such inclusion, however, should be based on the premise that the organization is a related party (rather than a consolidation or disclosure entity) and therefore should be included as a footnote disclosure based on the disclosure requirements of a related party as discussed in paragraphs 78-87. As such, we recommend that paragraphs 35 and 36 be deleted. In the Appendix B: Flowchart, we further recommend deleting the “Misleading to Exclude” decision box located after the “Control” decision box and prior to the “Related Parties” decision box. (See Addendum A at the end of this document).</p> |
| #36 Treasury CFO   | d. Agree. The examples in Appendix C demonstrate how the principles can be theoretically applied to various types of organizations such as the Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others.   |
| #37 Smithsonian Institute CFO  | No response  |
| #38 FDIC   | No response  |
| #39 US Railroad Retirement Board   | <p>a. Agree</p> <p>b. Agree</p> <p>c. Agree</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| d. No comment   |  |
| <b>QUESTION 2</b>   |  |
| <p><b>a. Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.</b></p> <p><b>b. Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.</b></p> <p><b>c. Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.</b></p> <p><b>d. Do you agree or disagree with:</b></p> <ul style="list-style-type: none"> <li><b>i. the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),</b></li> <li><b>ii. the objectives for disclosures (see par. 72), and</b></li> <li><b>iii. the examples provided (see par. 73)?</b></li> </ul> <p><b>Please provide the rationale for your answers.</b></p> |  |
| #1 PBGC -Joint Response CFO & OIG   | No response  |
| # 2 Holocaust Memorial Museum- CFO  | No response  |
| #3 Office of Personnel Management - CFO   | <p>a. Agree with the concept of distinguishing between consolidation entities and disclosure organizations. Disclosure organizations enable complete or full disclosure of information to be provided in federal financial reports.</p> <p>b. Agree with the attributes used to make the distinction between consolidation entities and disclosure organizations.</p> <p>c. Agree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations are consolidation entities or disclosure organizations. The attributes for consolidation entities: (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis are all keys for federal government entities.</p> <p>d. i. Agree</p> <p>ii. Agree</p> <p>iii. Agree</p> <p>The factors in determining disclosures are comprehensive and appear to support SFFAC 1.</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| #4 Postal Service- OIG | No response   |
| #5 SIPC                | No response   |
| #6 DOC CFO             | <p>a. The Department of Commerce agrees with the concept of distinguishing between consolidation entities and disclosure organizations because they are two separate groups and should have different accounting treatment. The consolidation entities behave more like government entities and should be included in the financial statements, while the disclosure organizations are mostly quasi-government entities that are financially independent and better detailed in the note disclosures.</p> <p>b. The Department of Commerce agrees with the attributes for distinguishing between consolidation entities and disclosure organizations. The attributes are practical, logical, and can be linked back to whether the organization needs taxpayer funds. A higher level of funding and influence on an organization demand a higher level of reporting in the statements, and lower levels of funding and influence demand a lower degree of reporting (e.g. disclosure, omission).</p> <p>c. The Department of Commerce agrees that the attributes are adequate to make a sound determination of whether an organization should be included in the GPFRR, because they are logical, practical, and clearly defined.</p> <p>d. The Department of Commerce agrees with the factors, objectives, and examples of disclosure provided to discern between consolidation entities and disclosure organizations. We believe all three should be considered to maintain objectivity.</p>  |
| #7 SSA CFO             | <p>a. We agree with the concept of distinguishing between consolidation entities and disclosure organizations. The distinction will help in meeting Federal financial reporting objectives, as well as provide users with comprehensive disclosure about Federal reporting entities. This distinction will also allow for separate presentation of financial information for organizations with differences in purpose, governance structure, and financial relationships.</p> <p>b. We agree the attributes provide clarity towards making the distinction between consolidation entities and disclosure organizations. As discussed in this Standard, it is important to make a distinction between consolidation entities and disclosure organizations to prevent distortions to the consolidated financial statements and to meet reporting objectives.</p> <p>c. We believe providing the attributes aids in making a more informed decision in correctly categorizing the organization as a consolidation entity or disclosure organization. The attributes discussed in paragraphs 37-53 and 64-77 illustrate how an organization can be classified as either a consolidation entity or a disclosure organization.</p> <p>d. i. We agree with the factors to be considered in making judgments about the extent of appropriate disclosures. The factors appear suitable and reflect the key aspects needed for appropriate disclosures. Beyond materiality, it is important to consider the guidelines set forth in SFFAC 1 regarding relevance to reporting objectives; potential exposure to risks and benefits associated with the relationship; and understanding the organization’s relationships to the Federal Government and others.</p> <p>ii. We agree with the objectives for disclosures. The objectives appear in-line with the desired goals and results of full disclosure as the objectives emphasize relationship and organization, relevant activity, and future risks and exposures.</p> <p>iii. We agree with the examples provided. They are representative of the disclosures needed for full transparency and accountability and are helpful in understanding the reporting required of disclosure organizations.</p> |
| #8 NSF CFO             | <p>a. NO NSF COMMENT</p> <p>b. NO NSF COMMENT</p> <p>d. NO NSF COMMENT</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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Editorial comments considered w/ June Draft

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| <p>#8 NSF CFO</p> <p><b>Open Issue-<br/>Editorial, structural,<br/>or clarified in BfC</b></p> <p><i>Staff clarified<br/>paragraph 38 to be<br/>clear the<br/>assessment is<br/>based on all<br/>attributes and not<br/>all must be met- see<br/>staff edits.</i></p> | <p>c. The definition of consolidation entities to include “financed through taxes, and other non-exchange revenues”, and the requirement that disclosure organizations “receive limited or no funding from general tax revenues” should be reconsidered. In several illustrative scenarios, and in practice, the fact that federal funds may be the primary source of funding for an organization does not determine whether it is part of the GPFFR or its status as a disclosure entity or consolidation entities. Furthermore, paragraphs 32 – 34 of the ED indicate that economic dependency does not equate to control. Since economic dependency can be a characteristic of entities that are excluded from the GPFFR, and both consolidation entities and disclosure organizations, removing it from the definition of both should be considered.</p> |
| <p># 9 KPMG</p> <p><b>Open Issue-<br/>Editorial, structural,<br/>or clarified in BfC</b></p> <p><i>Staff edit no longer<br/>use presumptive,<br/>instead say<br/>'generally would<br/>qualify as<br/>consolidation<br/>entities.'</i></p>                             | <p><u>General Structure Comments</u></p> <p>Characteristics of a consolidated organization</p> <p>i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle outlined above. These characteristics would not be evaluated for organizations having met the 1st principle as it is considered a presumptive principle for consolidation.</p>  |
| <p># 9 KPMG</p> <p><b><u>5. “Temporary”- Dec<br/>2013</u></b></p> <p><b><u>1b “Temporary”<br/>March 2014</u></b></p>  | <p>ii. These characteristics would come from paragraph 38. The standard should be clear about whether all characteristics must be met to trigger the consolidation requirement. We do not understand the characteristic in item 38d; therefore, we suggest deleting it. Further, consistent with the approach related to receiverships/conservatorships in paragraph 49 and interventions in paragraph 50 whereby the concept of temporary control is introduced, we believe that the characteristic, other than temporary control, should be added to this section.</p>   |
| <p># 9 KPMG</p> <p><b>Open Issue-<br/>Editorial, structural,<br/>or clarified in BfC</b></p>  | <p>Remove paragraphs 39-40 from the statement. Consider including this information within the Basis for Conclusion.</p> <p>Characteristics of a disclosure organization</p> <p>i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle.</p>   |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| <p><b>Staff believes much time was spent by the board on developing language in this area in conjunction with addressing the temporary issue. Additional edits were made by staff to ensure consistency with language. Staff incorporated the suggestion for par. 44 to recognize examples of types of organizations that meet the characteristics of a disclosure organization, but do not include all types of disclosure organizations.</b></p> | <p>ii. This section should clearly contrast with the characteristics of a consolidated organization. While judgment will be needed to distinguish between consolidation and disclosure, having the basic characteristics parallel will facilitate the evaluation. These characteristics would come from paragraphs 41-44 presented in the following order – 41, 43, 42, and 44.</p> <p><u>Detailed Comments</u></p> <p>Characteristics of a consolidated organization</p> <p>i. Remove paragraphs 39-40 from the statement. Consider including this information within the Basis for Conclusion.</p> <p>Characteristics of a disclosure organization</p> <p>i. The information presented in paragraph 44 should clarify that the types of disclosure organizations presented in paragraphs 45-53 (quasi-governmental and/or financially independent organizations, organizations in receiverships and conservatorships, and organizations owned or controlled through federal government intervention actions) are examples of types of organizations that meet the characteristics of a disclosure organization, but do not include all types of disclosure organizations. To clarify this, we suggest the following revision to paragraph 44.</p> <p>Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and conservatorships, and organizations 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 organization types, while not inclusive of all of the types of disclosure organizations, are presented to assist in identifying organizations that are disclosure organizations.</p> <p>ii. Paragraph A45 of the Basis for Conclusion implies that the examples of disclosure organizations are inclusive of all the types of disclosure organizations and as a result conflicts with paragraph 44. This should be clarified.</p> |
| <p>#9 KPMG</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>  | <p>Presentation-Disclosure Organizations</p> <p>The examples provided in paragraphs 45-53 could be moved to an appendix for readability.</p> <p>i. We believe that paragraph 67 serves as a good introduction to the disclosure requirements and can remain as the introduction to this section.</p> <p>ii. We suggest the following revision to paragraph 68:</p> <p>For those organizations classified as disclosure organizations, the reporting entity should exercise judgment in determining the appropriate disclosures based on the guidance provided in paragraphs 70-73.</p> <p>iii. We believe the information provided in paragraph 69 can be removed based on the following:</p> <p>a. 69a (Relevance to reporting objectives) – The concepts presented within paragraph 69a are included within</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|                  | <p>paragraph 72a and the related examples included within paragraph 73 (specifically 73a-c).</p> <p>b. 69b (Nature and magnitude of the potential risks/exposures or benefits associated with the relationship) – The concepts presented within paragraph 69b are included within paragraph 72b and the related examples included within paragraph 73 (specifically 73d).</p> <p>c. 69c (Disclosure organization views/perspectives) – We do not believe that the federal reporting entity would know the disclosure organizations’ views/perspectives of its relationship with the federal reporting entity, nor should this influence the level of disclosures included within the reporting entity’s financial statements.</p> <p>d. 69d (Complexity of relationship) – This paragraph implies that a more complex relationship would require additional disclosures. If this is true, we believe the additional required disclosures for a complex relationship should be included within the requirements of paragraph 72.</p> <p>e. 69e and 69f – We believe the concepts presented in paragraphs 69e and 69f are too subjective and should not be considered to influence the level of disclosures included in the reporting entity’s financial statements.</p> <p>iv. We suggest the following revision to paragraph 70:</p> <p style="padding-left: 40px;">Both qualitative and quantitative factors should be considered in determining whether information about a disclosure organization should be presented separately due to its significance or aggregated with the information for other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.</p> <p>v. As noted in our suggested general outline, we believe that paragraphs 72 and 73 should be combined and paragraphs 74-76 should be moved to consolidated organizations as they do not apply to a disclosure organization.</p> |
| #10 Treasury OIG | No Response  |
| #11 HUD CFO      | <p>a. HUD agrees with the concept of distinguishing between consolidation entities and disclosure organizations. In some cases, disclosure of information regarding an individual organization is more appropriate than consolidation of the individual organization’s financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations’ financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.</p> <p>b. HUD agrees with the attributes used to make the distinction between consolidation entities and disclosure organizations. The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. The examples in Appendix C are helpful to explain these distinctions.</p>   |
| #11 HUD CFO      | c-d. HUD agrees with the factors to be considered in making judgments about the extent of appropriate disclosures,   |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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Editorial comments considered w/ June Draft

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| <p><b><u>2.Misleading to Exclude- Dec 2013 and .7 Central Bank- Dec 2013</u></b><br/><b><u>Tab B2 Central Bank- March 2014</u></b></p>   | <p>the objectives for disclosures, and the examples provided, except in the case where an organization is excluded as a result of the three principles, in which exclusion would be misleading. We believe that examples are needed to enhance the judgment of the preparer and the auditor. In addition, HUD believes that the factors are not sufficient to determine whether the Federal Reserve System should be a consolidation entity or a disclosure organization, even with the discussions of the Board in paragraphs A32 – A37 in Appendix A.</p>  |
| <p>#12 TVA CFO</p>   | <p>a. TVA agrees with the concept of distinguishing between consolidation entities and disclosure organizations to ensure that general purpose financial reports issued by federal entities are meeting the needs of its primary users. As described in paragraph 67, there is a difference in purpose, governance structure, and financial relationships within organizations of the federal government. These differences are based in part on differing business models arising from purpose, governance structure, and financial relationships.</p> <p>b. TVA agrees with the attributes to distinguish between consolidation entities and disclosure organizations as described in paragraph 37, whereby a distinction is made based on an assessment of the degree to which certain characteristics such as financing source, risks and rewards to the federal government, and non-market goods and services are provided.</p> <p>Governmental activities are different from business-type activities which more nearly parallel private-sector counterparts. Accountability of consolidation entities (utilizing a non-market model) is primarily to (a) citizens, (b) Congress, (c) federal executives, and (d) federal program managers. Disclosure organizations are often identified with for-profit business models which report to financial institutions, bondholders, investors, banking trade groups, and customers.</p> |
| <p>#13 NASA CFO</p>  | <p>a. NASA agrees with the concept of distinguishing between consolidation entities and disclosure organizations. In order to improve upon the information reported on activities financed by taxpayers, it is important to indicate circumstances where financial statement disclosure is more appropriate than consolidation of the results of each organization’s financial activities.</p> <p>Our rationale is based on the reality that there are varying degrees of the federal government’s relationship with organizations – i.e. government ownership, control, or significant influence. The related degree of financial reporting and disclosure should mirror the relationship between the federal entity and an organization.</p>   |
| <p>#13 NASA CFO<br/><b>Open Issue- Editorial, structural, or clarified in BfC</b><br/><b><i>Additional language added to par. 38 and footnote 22. Also there is discussion in bfc.</i></b></p> | <p>b. NASA requests that FASAB provide clarity regarding the disposition of the attributes individually and in the aggregate in order to distinguish between consolidation entities versus disclosure organizations. Clarity may be promoted by providing more detail. An example may be:</p> <p>“Financed through taxes, and other non-exchange revenues”, means the entity receiving funds is specified in an appropriation or that are not a result of goods or services provided to the federal agency/government.</p> <p>An entity is considered to be “governed by the Congress and/or the President” when its direction is specified in appropriation language.</p>   |
| <p>#13 NASA CFO</p>  | <p>c. NASA requests that FASAB provide additional clarity and guidance regarding the reporting attributes as they relate</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| 7. Other Organizations – April 2014  | to each type of organization and specifically to Federally Funded Research and Development Centers.   |
| #13 NASA CFO<br><b>3. Disclosure Entity Issues- March 2014</b>   | <p>d. i. Overall, NASA agrees with the factors in determining disclosures and the objectives for disclosure however, this is another area where consideration should be given to the specific types of organization. As an example, information required in item C – Disclosure organization views/perspective, may be provided by a reporting entity as documented in the current FFRDC sponsoring agreement.</p> <p>ii. NASA agrees with the objectives for disclosures in paragraph 72 to provide relevant information to financial report users regarding the impact of the activity with the disclosure organization on the government’s financial condition.</p> <p>iii. Overall, NASA agrees with the examples of information that would be disclosed, as long as the degree of financial reporting and disclosure takes into consideration the relationship between the federal entity and an organization. In other words, information in response to Item #D could include a summary describing the portion of the reporting entity’s assets, liabilities, revenues, expenses, gains, and loses that are applicable to the disclosure organization identifying the types of assets/transactions that make up the majority of the balances. To provide further detail would be more consistent with consolidation versus disclosure. Item #E should provide clarity on the objective of this disclosure and how it relates to the reporting entity’s financial reports. In addition, for clarity, we recommend the Statement identify each example to the relevant disclosure objective in paragraph 72.</p> |
| #14 Department of Homeland Security CFO  | a. Agree, we also believe that an agency should be required to consistently report either consolidation or disclosure.  |
| #14 Department of Homeland Security CFO<br><br>Board chose attributes to describe each because of the varying types of relationships with different organizations and there wasn’t a hard line test. | <p>b. Disagree, with the more “flexible” attributes. For example the phrase: “imposing or may impose risks and rewards on the federal government,” will mean different things to different reasonable people, and therefore will result in different agencies consolidating and/or disclosing some entities while sister agencies under similar circumstances decide to do the exact opposite. Similarly the phrase, “less direct involvement and influence,” is again too subjective and will garner different treatment for similar situations. Also in this complex financial world several entities could provide a mix of goods and services both on a market basis and a non-market basis. So using this attribute and scenario alone an agency could argue for either consolidation or disclosure. This raises the question; Are these attributes equally weighted? Paragraph #37 states that “not all characteristics are required to be met to the same degree.” This is not helpful direction if the goal is to have comparable and consistent GPFFRs.</p> <p>c. Disagree, we believe a hard line test should be developed when choosing between consolidation and disclosure.</p>  |
| #14 Department of Homeland Security  | d. i. Disagree with subjective judgments about disclosures involving things like the “nature and magnitude of potential risks/exposures and benefits” or “complexity of relationships” etc. Instead we strongly agree that after an objective   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>CFO</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>  | <p>measure—such as materiality (x% of appropriated dollars for example)—determines that we should disclose, then all entities disclosed in the GPFFRs should disclose comparable data and those disclosure requirements should be developed here as shown in paragraph 72-73.</p>  |
| <p>#14 Department of Homeland Security CFO</p>   | <p>ii. Agree.</p> <p>iii. Agree</p>  |
| <p>#15 Nuclear Regulatory Commission OIG</p>   | <p>a. I agree with the concept. I think disclosure organizations would provide the GPFFR users with necessary information to fully understand the operations of the reporting entity. Without the disclosure organization’s business relationship with the reporting entity, the GPFFR users would not be able to assess the financial risks and would not be able to make informed decisions concerning the reporting entity.</p> <p>b. I agree with the attributes used to make the distinction between consolidation entities and disclosure organizations. I think the attributes capture the intent of consolidations. It provides the proper combination of assets, liabilities, and operations to allow the GPFFR users to trace the financial accountability to the controlling decision makers.</p> <p>c. I agree. The attributes are well defined and specific enough to provide for the proper determination of the named organizations as consolidation entities or disclosure organizations,</p> <p>d. i I agree with the factors because they provide specific guidance for preparers to follow, and the factors are relevant to the information that GPFFR users would need.</p> <p>ii I agree with the objectives because they are concise and clear and easy to follow.</p> <p>iii I agree with the examples because they provide a lot of guidance to preparers to help them understand the nature and intent of what should be included in order to satisfy the objectives identified in par. 69.</p> |
| <p># 16 Federal Reserve System</p> <p><b><u>7 Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2. Central Bank- March 2014</u></b></p> | <p>II. Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.</p> <p>Disclosure of financial information in the GPFFR footnotes, as opposed to consolidation in the federal government’s financials, will provide relevant financial information while avoiding misleading perceptions about the relationship between the federal government and the Federal Reserve System. In particular, classifying the Board and the Reserve Banks as disclosure organizations recognizes the Federal Reserve System’s independence as a central bank under the Federal Reserve Act, while including focused and relevant financial information in the GPFFR.</p> <p>Although we understand that the proposed standard intends to provide a broader definition of the federal reporting entity, we believe that the evaluation of each entity should give appropriate weight to those functions and activities that most significantly affect the financial operations of the entity.</p> <p>The Reporting Entity exposure draft recognizes that the federal government achieves its objectives through a wide range of organizations, which fall at different points on the control continuum. The Federal Reserve System performs many functions that fall at different points on the continuum described in the exposure draft. For example, the</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

Reserve Banks interact closely with the federal government in their role as fiscal agents and depositaries for the federal government. In that role, the Reserve Banks auction Treasury securities; process electronic and check payments for the Treasury; collect funds owed to the federal government; maintain the Treasury's bank account; and develop, operate, and maintain a number of automated systems to support the Treasury's mission. The Treasury Department pays the Reserve Banks for these services from appropriated funds that are reflected in Treasury's financial statements. That role, however, accounts for a relatively small portion of the financial operations of the Reserve Banks.

At the other end of the continuum, by statute, the Federal Reserve operates independently with respect to determining and implementing monetary policy, and that function has a much more significant effect on its financial condition and operating results. The Federal Reserve Act provides the Board, the Reserve Banks, and the Federal Open Market Committee with specific separate authorities and responsibilities and is designed to preserve the independence of the Federal Reserve System entities from other government departments and agencies, including the U.S Treasury. The current FASAB Statement of Federal Financial Accounting Concepts 2: Entity and Display recognizes the independence of the monetary policy authority, stating that the Federal Reserve System's "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." Further, Reserve Banks are not government agencies, and the treatment in the GPFFR should be consistent with their character.

III. Consolidation of the Federal Reserve System would reduce transparency in the GPFFR.

Consolidation of the Federal Reserve System's financial information in the GPFFR would partially eliminate assets and liabilities stemming from both fiscal and monetary policy in a way that would reduce the transparency of the government's fiscal operations. For example, the Reserve Bank's holdings of Treasury securities acquired in the conduct of monetary policy would be eliminated along with the U.S. Treasury's debt liabilities after consolidation, obscuring the federal debt resulting from the federal government's fiscal operations. The portion of interest expense paid on the Reserve Bank's holdings of U.S. Treasury securities would also be eliminated. Consolidation would also result in presenting deposits of private financial institutions held at the Reserve Banks as obligations of the federal government, which they are not.

IV. Consolidation of the Federal Reserve System would increase the cost and administrative effort associated with producing the GPFFR.

Because the Federal Reserve System reports financial information on a calendar-year basis, its audited financial information would be stale by the time it was included in the fiscal year based GPFFR dated as of September 30. Although the information could be updated by performing a nine-month "walk-forward" of Federal Reserve System financial information, the cost to the federal government of auditing this information would be significant.

In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively). Reconciling

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.   |
| #17 TVA OIG   | No Response  |
| #18 DOD CFO   | <p>a. Agree. The federal government has relationships with organizations which have a greater degree of autonomy than those considered consolidation entities. Entities receiving limited or no funding from tax revenues and providing only rewards or risks to the federal government should not be reported the same as consolidated entities. In order for the GPFFR to be complete, disclosure entities must be included.</p> <p>b. Agree. Attributes used to make the distinction between consolidation and disclosure organization entities fall in line with the inclusion principles. No additional attributes are noted, at this time.</p> <p>c. Agree. Assuming that an organization is to be included in the GPFFR, the attributes are adequate to make the distinction between consolidation and disclosure organization. The attributes provide a principle based exercise to determine whether an entity should or should not be included in the GPFFR and how they should be reported, as consolidated entities or disclosure entities. No additional attributes are noted, at this time.</p> <p>d. i. Agree. The factors seem to assure that disclosures made to the financial statements are presented fairly and without any material misstatements.</p> <p>ii. Agree. The objectives seem adequate to assure that disclosures made to the financial statements are objective and present any potential risks.</p> <p>iii. Agree. The examples provided should provide complete and accurate disclosures to the financial statements.</p> |
| #19 Commodity Credit Corporation CFO  | <p>a. Yes agree with the concept of reporting some entities as disclosure organizations rather than as consolidating entities. The types of organizations which should be disclosed rather than consolidated might skew the reporting of a consolidated entity.</p> <p>b. Agree. The Document provides clear decision making criteria.</p> <p>c. Agree. The attributes are clear and provide adequate criteria to allow for determination of consolidation vs. disclosure.</p> <p>d. i. Agree.</p>   |
| #19 Commodity Credit Corporation CFO<br><b><u>3. Disclosure Entity Issues- March 2014</u></b> | <p>d. ii. Agree, however 72(c) can be open for interpretation within the audit community and reporting projected future exposure financially may be difficult.</p> <p>iii. Agree. Examples help provide clarity to the disclosure objectives.</p>  |
| #20 Joseph H. Marren  | The concept of “consolidation entities” and “disclosure entities” is directly at odds with the Statement and Account Clause’s “all public Money” requirement.  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

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| <p><b>#7 Central Bank- Dec 2013</b><br/><b>Tab B2. Central Bank- March 2014</b></p> | <p>The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government’s consolidated financial statements will remain substantially misleading.</p>   |
| <p>#21 HUD OIG</p>  | <p>We support the Board’s position on questions 1 – 4 and 6-11</p>   |
| <p>#22 HHS OIG</p>  | <p>a. There should be some differentiation between consolidation entities and disclosure organizations. For the most part, HHS is a consolidation entity and this portion would not affect its financial reporting. HHS really does not have any disclosure organizations. The determination between consolidation entities and disclosure organizations should made in consultation between the preparers for agency GPFFR and their auditors.</p> <p>b. The attributes properly distinguish between consolidation and disclosure organizations. They are logical and appear to follow what one would expect to find in proper Federal financial reporting. No additional attributes appear to be needed in the proposed standard.</p> <p>c. As indicated above, the attributes are adequate to make a determination whether the organizations included in number Q2 c. are consolidation entities or disclosure entities. These attributes, if properly applied by preparers and auditors of GPFFRs, define both consolidation entities and disclosure organizations.</p> <p>d. The factors to be considered, the objectives and the examples provided show very clear concepts on how disclosure organizations should be reported in the GPFFRs. These items follow what one would expect to see in normal Federal financial reporting. Again, if applied properly, the use of the areas described in paragraphs 69, 72 and 73 will help preparers and auditors of GPFFRS provide adequate disclosures for organizations where the Federal government has a financial, material and/or managerial interest.</p> |
| <p>#23 SEC CFO<br/><b>4. Term for Disclosure Organization-- Dec 2013</b></p>        | <p>a. Agree with the concept of distinguishing consolidation versus disclosure organizations. However, as noted in the response to Q1 (b), the terms “consolidation <u>entities</u>” and “disclosure <u>organizations</u>” are somewhat confusing. The terms “entity” and “organization” appear to be used inconsistently throughout the ED. The term “organization” is used most often, but paragraph 38 indicates that some organizations are referred to as “[consolidation] entities,” but paragraphs 38-39 still use the word “organization” but clearly are referring to “consolidation entities.” There is no explanation of why some “organizations” are also “entities,” but others (“disclosure organizations”) apparently are not.</p> <p><u>SEC Recommendation:</u> that the term “organization” be used consistently throughout the document for everything except for references to a <i>primary federal reporting entity</i> (government-wide or component level). This would include changing the term “consolidation entity” to “consolidation organization.”</p>   |
| <p>#23 SEC CFO<br/><b>3. Component Reporting Issues- March 2014</b></p>             | <p>b. Disagree. The inclusion principles, in particular for component reporting entities, are confusing and appear to be inconsistent. For example, it is unclear what the standard means by a component entity being “assigned accountability” for another organization. The requirements appear to allow for a category of “disclosure organizations” that are included in a component entity’s section of the Budget, and even included within the component entity’s congressional budget justification (paragraph 57b). However, paragraph 39 and the decision tree in Appendix B appear to indicate that all organizations in the budget must be consolidated, either by a component entity or in the government-wide financial statements.</p> <p><u>SEC Recommendation:</u> The requirements in the Standards section should be clarified to distinguish between</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | <p>consolidation and disclosure organizations. A clear summary of this distinction is provided in Q2 of the ED, but not in the Proposed Standards section of the ED. The following recommended additional language is adapted from Q2:</p> <p style="padding-left: 40px;"><u>There are two types of organizations in GPFFRs and this distinction will ultimately should determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, <u>including a component entity’s congressional budget justification</u>, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.</u></p> <p>In addition, if the decision tree in Appendix B is retained, it should be edited to show that organizations in a component entity’s budget may be a disclosure organization (and not automatically a consolidation entity, with no exceptions).</p>                               |
| <p>#23 SEC CFO</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>      | <p>This would create implementation problems if component entities were required to consolidate organizations that do not report in accordance with FASAB requirements, and do not produce a Statement of Budgetary Resources or data in accordance with the United States Standard General Ledger. FASAB requirements for component entities include a reconciliation between budgetary and proprietary account balances; those would be forced out of balance if a federal component entity were to be consolidated with a FASB-GAAP organization. Examples of such FASB-GAAP organizations are the PCAOB and the SIPC, neither of which is included in the SEC’s congressional budget justification but both of which are included in the SEC’s section of the Budget. It does not appear to be the Board’s intent to require the consolidation of such entities. For example, the PCAOB and SIPC receive no funding from general tax revenues, and they impose limited (or no) risks on the federal government because their liabilities are not backed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government’s general tax revenues. In addition, the reconciliation of budgetary and proprietary balances (originally titled the “Statement of Financing”) required by SFFAS 7 would not be possible if a FASB-GAAP organization were to be fully consolidated into a FASAB-GAAP reporting entity.</p> |
| <p>#23 SEC CFO</p> <p>The Board agreed to maintain the inclusion principles.</p> | <p>Also, the SEC recommends that the Board should consider simplifying the requirements by addressing consolidation versus disclosure separately from the outset, rather than using the overarching “inclusion” concept which combines two quite dissimilar categories.</p> <p>In addition, the proposed standard would be less cumbersome without the overarching concept of “inclusion” that combines consolidation with disclosure entities. “Consolidation” and “disclosure” are such different reporting treatments that it is hard to see what is gained by combining them into a single category (“apples-oranges”) and then</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | separating them out.  |
| #23 SEC CFO<br>Staff notes par. 46 relates to Quasi-Governmental organizations and will consider this an editorial suggestion and not as an indicator for a consolidated entity. However, the indicators provided in par. 46 and 47 appear to cover these in a more general way as intended by the Board. | <p>Also, two important attributes should be added as indicators that an organization should be disclosed rather than consolidated when the organization’s assets and liabilities are not assets or liabilities of the federal government. The SEC recommends that the following two attributes should be added to paragraph 46:</p> <ul style="list-style-type: none"> <li>• The organization’s assets do not meet the definition of federal “assets” in Statement of Federal Financial Accounting Concepts (SFFAC) 5<sup>13</sup> because they are not available for use or sale by any components of the federal government.</li> <li>• The organization’s liabilities do not meet the definition of “liabilities” in SFFAC 5<sup>14</sup> because the organization’s liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by the quasi-federal organization’s own assets, which are derived from external revenue sources that are separate and distinct from the federal government’s general tax revenues. The organization’s employees cannot incur liabilities on behalf of the federal government because legislation provides that they are not authorized to act as employees or agents of the federal government.</li> </ul> |
| #23 SEC CFO<br><b><u>3. Disclosure Entity Issues- March 2014</u></b>  | <p>c. Disagree. See recommended additional attributes in response to Q2b above.</p> <p>d. i. Disagree. Factor 69(c) states that:</p> <p>Disclosure organization views/perspective – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization 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.</p> <p>However, the nature of this “influence” upon the type and extent of information disclosed is not specified. An example would greatly assist federal preparers to determine appropriate reporting for such situations. Recommend that this be clarified by adding additional language to provide an example; see SEC recommendation below.</p> <p>SEC Recommendation: Consider adding the following additional language to paragraph 69c:</p> <p><u>For example, in situations where the organization views itself as operationally independent of Congress and/or the President, and issues stand-alone audited financial statements available to the public, information on how to obtain the</u></p>   |

<sup>13</sup> SFFAC 5, paragraph 18 states that: “An asset is a resource that embodies economic benefits or services that the federal government controls.”

<sup>14</sup> SFFAC 5, paragraph 39 states that: “A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.”

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|   | <p><u>organization’s audited financial statements may be provided in lieu of disclosures of quantitative financial data relating to the organization.</u></p> <p>ii. Agree. The objectives would provide information useful to financial statement readers.</p> <p>iii. Disagree with one of the examples. Example 73e provides this example:</p> <p style="padding-left: 40px;">e. A discussion of the disclosure organization’s key financial indicators and changes in key financial indicators</p> <p>Example 73d clarifies that the disclosure should focus on the impact of transactions with the disclosure organization and how those transactions impacted the assets, liabilities, expenses, gains and losses of the federal reporting entity. In contrast, example 73e appears to focus on the assets, liabilities, expenses, gains and losses of the disclosure organization, and does not appear to support any of the three objectives listed in paragraph 72. This problem also applies to paragraphs 74, 75, and 76, which discuss the presentation of financial information for the disclosure entity. Also, in situations where the federal reporting entity is not involved in the other organization’s day-to-day operations, the federal reporting entity’s management may not have direct knowledge of whether there may be significant changes in information in the intervening period between the issuance date of the other organization’s financial statements and the issuance date of the federal component entity’s financial statements. For this reason, the federal component entity’s management should only be required to report significant changes that it is aware of.</p> <p>SEC Recommendation:</p> <p>a. delete the requirement to report financial data for disclosure organizations, by deleting example 73e as well as paragraphs 74-76 (recommended).</p> <p>b. Add the following additional language to paragraph 76: <u>If the component entity is aware of significant changes in information occurring from the end of the disclosure organization’s reporting period, such changes</u> should be reported consistent with the requirements of SFFAS 39, <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards</i>.</p> |
| #24 DOL OIG   | <p>a. We agree with the concept of distinguishing between consolidation entities and disclosure organizations. Not all entities should be considered part of the federal government entity itself, but there is a significant enough relationship to the federal government that at least there should be disclosure of information of such entity.</p>  |
| #24 DOL OIG<br>Staff notes the assessment is based on the consideration of the “characteristics” as a | <p>b. We generally agree with the attributes in determining the difference between consolidating entities and disclosure organizations. However, we do not believe that whether or not an entity provides goods or services on a non-market basis should be a deciding factor—individually or aggregated with other factors.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| whole and not one is a deciding factor. Therefore, staff does not see a problem with it remaining as it is may be helpful. |   |
| #24 DOL OIG  | c. We do not have any additional attributes to add to those already enumerated in the draft standard.<br>d. We agree with i. through iii., above.   |
| #25 Administrative Office of the US Courts   | No response   |
| #26 GSA CFO  | a. GSA agrees with the concept of distinguishing between consolidation entities and disclosure organizations. However, in practice, GSA is not sure how well this will work.<br>b. The attributes seem appropriate.<br>c. No comments   |
| #26 GSA CFO<br><b><u>3. Disclosure Entity Issues- March 2014</u></b>   | d. The guidelines regarding factors in determining disclosures seem rather subjective. GSA does agree with the objectives of disclosure and thinks the examples provided are useful in this instance. However, Part 73.b.i, the amount that best represents the federal government's maximum exposure to gain or loss with the disclosure organization remains a significant concern, in keeping with the other comments provided in response to Question 1 above. It is just unknown how maximum exposure could be quantified without some rules defining what the true limits to liability are. |
| #27 GWSCPA FISC<br><b><u>5. "Temporary" -- Dec 2013</u></b><br><b><u>1b. "Temporary"- March 2014</u></b>                   | The FISC agrees with the concepts of consolidation and disclosure entities, and the attributes used to make the distinction between these types of entities. However, we suggest that the Board include a criterion in the determination of the consolidation entities that the organization's relationship with the federal government is other than temporary in nature. Therefore, we suggest that a 5th criterion be added for consolidation entities that states, "(5) connected to the federal government in an other than temporary nature."   |
| #27 GWSCPA FISC<br><b><u>5. Effective Date- April 2014</u></b>   | In addition, we suggest that the Board consider allowing the preparer community with additional time or an alternative forum to consider the effects on component agencies' GPFFRs and the government-wide GPFFR.   |
| #27 GWSCPA FISC  | The ED could be interpreted to require entities not currently envisioned within today's view of the Federal Government's reporting entity to be required as a consolidation or disclosure entity, such as the Government of the   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p><b><u>1. In the Budget- Dec 2013</u></b><br/><b><u>1a. In the Budget- March 2014</u></b></p>  | <p>District of Columbia. (The Government of the District of Columbia is included in the Budget and receives funding through Congressional appropriations other than federal financial assistance (criterion 1), and the U.S. Congress exercises control through legislative review of key laws passed by the City Council (criterion 3)). There are additional entities that are named in the U.S. Budget that we do not believe are currently considered part of the Federal reporting entity, such as the U.S. Virgin Islands, Puerto Rico, Guam, American Samoa, several major universities that hold Federal charters and are included in the U.S. Budget (such as Gallaudet University and Howard University), along with numerous “friends of” entities of U.S. National Service Parks and other units. In addition, would the scenario of a state bankruptcy – an unlikely event but not unheard of in discussions of the past five years – cause the entire state government to be included if the government-wide and/or a component agency GPFFR (e.g., the Department of Treasury’s GPFFR) since the Federal Government would potentially have administrative control with risk of loss (criterion 3)? The FISC suggests that additional time to consider the potential implications of this ED, in its final form, would be worthwhile to prevent unintended reporting impacts when implementation is required.</p> |
| <p>#27 GWSCPA FISC<br/><b><u>6. FASB Based Information- Dec 2013</u></b></p>   | <p>Finally, we suggest that the Board remove the requirement in paragraph 66 that requires FASB-based organizations to disclose intragovernmental amounts measured in accordance with federal financial accounting standards. Such a requirement for disclosure in the FASB-based organization’s GPFFR does not appear to meet the requirement for general-purpose reporting since the disclosure is needed solely to facilitate elimination entries in the preparation of the government-wide financial statements. In addition, reporting in accordance with two bases of GAAP (i.e., FASB and FASAB) may lead to unnecessary confusion among the users of the FASB-based organization’s financial statements. Such intragovernmental information could continue to be reported to the U.S. Department of Treasury through the Closing Package process.</p>   |
| <p>#28 Joyce Dillard<br/>Staff notes there is an active project on PPP. The principles and characteristics should be applied to all organizations.</p> | <p>As you have stated:<br/><br/>Materiality is an overarching consideration in financial reporting<br/><br/>How are you approaching a Non-Profit Corporation acting as a Program Manager on a project partially funded by Federal funds?<br/><br/>Who determines the definition limited funding from general tax revenues?<br/><br/>If Disclosure Entities are privately owned, what are the liability tests?</p>   |
| <p>#29 DOL CFO</p>   | <p>No Comment</p>   |
| <p>#30 Intelligence Community</p>  | <p>a. We agree distinguishing between consolidation entities and disclosure organizations enhances the usefulness of the financial reports as stated in Paragraph 67, and enables the GPFFR of the reporting entity to more accurately reflect relevant information that faithfully represents the financial position and organizational structure of the entity. There should be a distinction between the reporting of consolidation entities and disclosure organizations. The underlying tests to define organizations in this manner are designed to assess the level of financial and operational autonomy an organization holds. The reporting entity is held to a higher standard of reporting on organizations with greater operational and financial dependency upon it (consolidation) than those with less dependency (disclosure).<br/><br/>b. We agree with the attributes used to make the distinction between consolidation entities and disclosure organizations because the principles applied are consistent with those used in the public sector for determining such treatment, and can, and should also, be applied</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | <p>to entities that have a relationship with the federal government.</p> <p>c. We agree there is adequate guidance in order to determine disclosure versus consolidation entities.</p> <p>d. i. We agree both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure should be presented separately due to its significance, or aggregated with the information regarding other disclosure organizations. This concept is widely applied in the commercial sector and is a logical way to present information with varying levels of significance to the organization</p> <p>ii. We agree the disclosure objectives in paragraph 72 provide the reader the appropriate type of information to assess the potential current/future impact the disclosure organization has/could have on the reporting entity.</p> <p>iii. We agree the examples included in paragraph 73 adequately assist the reader in understanding the specific types of information necessary to meet the disclosure objectives in paragraph 72.</p>  |
| <p>#31 AGA FMSB</p> <p>{FASAB staff note, comment in b refers to par. 31- this relates to the indicators of control and is included in general comments.}</p> | <p>a. The FMSB agrees with this approach. The FMSB agrees that beyond the factors of being in the budget and majority owned by the Federal government, control is the principle factor that must be considered in determining if an entity is classified as a consolidating entity or a disclosing organization. The principle behind the consolidated presentation is one of control.</p> <p>b. The FMSB agrees with the attributes used to make the distinction between consolidating entities and disclosing organizations. However we have concerns about some of the “Indicators” provided in the exposure draft that will be used for deciding if an organization is to be consolidated or disclosed. As stated in our comments above, we believe that some of the indicators in paragraph 31 are too wide ranging and can be applied to organizations not within the federal entity. We suggest that these be clearly labeled as some form of lesser indicator for the preparer and auditor to consider in reaching their conclusion.</p> <p>c. The FMSB agrees with the FASAB on this matter. The attributes are generally sound and can be applied to reach a reasonable conclusion.</p> <p>d. The FMSB agrees with the factors to be considered in making judgments about the extent of appropriate disclosures, the objectives for the disclosure and the examples provided. In particular we believe the issue of future loss exposures is especially significant and we applaud the FASAB for requiring this information in 73.i.</p> |
| #32 NSB   | No Response  |
| #33 Treasury Bureau of Fiscal Service (FMS)   | <p>a. Agree – different levels of Federal government responsibility/control should determine whether or not the entity would be consolidated with the primary agency or if a lesser role exists, it would be more appropriate to disclose the relationship and disclose the financial impact</p> <p>b. Agree – The Federal government’s responsibility to fund and ability to exercise control over an agency with a risk of loss/opportunity to benefit are substantive criteria for consolidating, while a reduced role in determining the overall health of an organization would substantiate a disclosure of the relationship and the resulting financial impact</p> <p>c. Paragraph 45-48 attempt to address the specific nuances that call out these organizations</p> <p>d. Reasonableness of disclosures</p> <p>ii. Agree – includes the relevant factors that should be addressed for any related party disclosure</p> <p>iii. Agree – represents all the relevant disclosure characteristics</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>#33 Treasury Bureau of Fiscal Service (FMS)</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>   | <p>d. Reasonableness of disclosures-</p> <p>i. Disagree – I don't understand why 'how the agency views its relationship with the government' should have a bearing on what gets disclosed</p>   |
| <p>#34 NRC CFO</p>  | <p>a. Agree</p> <p>b. Agree</p> <p>d. Agree</p>   |
| <p>#34 NRC CFO</p> <p><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p>   | <p>c. Disagree, also need to include all 3 branches of the Federal government. The Judicial and Legislative branches should be included in the consolidated report. It should be stated that this standards applies to all 3 branches of the Federal government.</p>  |
| <p>#35 FAF</p>  | <p>No Response</p>  |
| <p>#36 Treasury CFO</p>   | <p>a. Agree. How an organization is included in an agency financial report (either as a "consolidation entity" or "disclosure entity") should be distinguished based upon the nature of the relationship and the characteristics as listed beginning with paragraph 37.</p>   |
| <p>#36 Treasury CFO</p> <p><b><u>1. In the Budget- Dec 2013</u></b></p> <p>and</p> <p><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p> | <p>b. Agree. We identified no additional attributes. However, we believe clarification is needed regarding paragraph 39 which states that "Organizations listed in the budget, except for non-federal organizations receiving federal assistance, are presumed to qualify as consolidation entities..." The phrase "presumed to qualify as consolidation entities" is very misleading, especially since there are a number of organizations, beyond those that are non-Federal entities receiving federal assistance, which are currently not consolidated within the government-wide financial report (FR). Specifically, organizations that are listed in the budget under the judicial or legislative branch are not consolidated nor are they required to be consolidated since they are not subject to the periodic financial reporting requirements of Office of Management and Budget's Circular No. A-136, Financial Reporting Requirements. Currently, cash-related activity and balances of legislative and judicial branch organizations that are not consolidated within the FR are nevertheless included in the FR using receipt and outlay data from the central accounting system. This is necessary to account for the changes in government-wide cash balances that result from their operating activities. This accounting policy is disclosed in Note 1A of the FR. However, this current accounting and reporting practice differs significantly from the concept of consolidation of accounts which is "presumed" for all entities included in the budget, as proposed by this ED. If the ED is finalized as written without modifying current financial accounting and reporting practices for legislative and judicial branch organizations, the FR could receive an audit finding for not complying with the finalized accounting standard. It would seem that the only possible means for the FR to overcome such an audit finding without undergoing significant modifications to its current financial account and reporting</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|   | practices would be to provide evidence that all account balances and related activity other than cash, both by individual entity and collectively for all legislative and judicial branch organizations, would not be material to the FR's consolidated financial statements. Such evidence may need to be provided on an annual basis. The Board should therefore consider whether the potentially significant burden of complying with this new requirement outweighs the intended benefits to be derived.   |
| #36 Treasury CFO  | c. Agree. The attributes seem adequate to make a determination regarding the listed organizations and others that are similarly situated   |
| #36 Treasury CFO<br><b><u>3. Disclosure Entity Issues- March 2014</u></b>             | <p>d. We generally agree with the following exceptions. With regards to factors for determining disclosures, how a disclosure organization views its relationship with the federal government should not have a significant bearing on a federal agency's determination of what should be disclosed in its agency financial report regarding this disclosure organization. Accordingly, we recommend that paragraph 69(c) be removed.</p> <p>Disclosure of the amount of the federal government's exposure to gains and losses from future operations of the disclosure organization appears to be "forward looking" and should be avoided in audited notes to the financial statements. We therefore recommend removing the phrase "or future operations" from paragraph 72(c).</p> <p>We do not believe disclosure should be made of a disclosure organization's key financial indicators and changes in key financial indicators as proposed in paragraph 73(e). Audit assurance of key financial indicators of a disclosure organization, even if they could be readily identified, could be difficult and costly to obtain especially given its relative informational value. It would be better to point the reader to the disclosure organization's annual financial report, as required by paragraph 73(f), rather than disclosing such information in the audited notes to the financial statements of a federal agency financial report. Accordingly, we suggest removing paragraph 73(e).</p> |
| #37 Smithsonian Institute CFO   | No response  |
| #38 FDIC  | No response  |
| #39 US Railroad Retirement Board<br><b><u>7. Other Organizations – April 2014</u></b> | <p>a. and b. Modification: We suggest another category which is "<i>modified consolidated entity</i>". In this instance, an entity would have its net assets combined in the balance sheet and Statement of Social Insurance (if appropriate) of the Federal Report and information about disclosure organizations be disclosed in notes. In this instance, the entity would provide its audited net asset figure to the appropriate federal government agency for inclusion in the agency's financial statements and the FR. This separate category would be applicable to the situation that our agency incurs in relation to NRRIT (non-federal govt entity).</p> <p>National Railroad Retirement Investment Trust</p> <p>The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.</p> <p>The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|                                  | <p>companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.</p> <p>The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.</p> <p>The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.</p> <p>Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.</p> |
| #39 US Railroad Retirement Board | <p>c. No comment</p> <p>d. Agree</p>   |

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| <b>QUESTION 3</b>   |  |
| <p><b>a. Do you agree or disagree that each component reporting entity should report in its GPFPR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.</b></p> <p><b>b. Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.</b></p> |  |
| #1 PBGC -Joint Response CFO & OIG   | <p>Since PBGC is not a component reporting entity, we have no comment for the first question included in Q3. For the second question in Q3, we agree with the proposed standards' provision to exclude consolidation entities from component reporting entity reports when inclusion would be misleading, as discussed in Paragraphs 62 - 63. PBGC is an example for this exclusion provision. PBGC was legally established as a United States Government owned and self-financed Corporation, and administratively assigned to the Department of Labor (DOL). PBGC was authorized to operate independently, i.e., administered by a Director appointed by the President and confirmed by the Senate. In addition, PBGC has a Board of Directors consisting of the Secretary of Labor, the Secretary of the Treasury, and the Secretary of</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|  | Commerce. PBGC prepares its own audited financial statements under the Government Corporation Control Act (59 Stat. 597, codified at 31 U.S.C. § 9101 et. seq.), and also submits financial data directly to the Department of the Treasury for the Financial Report of the United States Government. Accordingly, the consolidation of PBGC's financial results and operations with the DOL's General Purpose Federal Financial Reports would not be useful and would only mislead users of the DOL and PBGC financial statements.  |
| # 2 Holocaust Memorial Museum- CFO   | No response  |
| #3 Office of Personnel Management - CFO  | a. Agree, as each GPFFR will be reliable.<br>b. Agree, administrative assignments can be identified per the guidance provided in paragraphs 54-63. The criteria appear to be appropriate and comprehensive.  |
| #4 Postal Service- OIG   | No response  |
| #5 SIPC  | No response  |
| #6 DOC CFO   | a. The Department of Commerce agrees that each component reporting entity should report in its GPFFR the organizations for which it is accountable, including consolidation entities and disclosure organizations administratively assigned to it. Not including these entities may be materially misleading, since the federal government has substantial control over these entities.<br>b. The Department of Commerce agrees that administrative assignments can be identified as provided in paragraphs 54-63.   |
| #7 SSA CFO   | a. We agree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it, so that both the component reporting entity GPFFR and government-wide GPFFR are complete.<br>b. We agree that administrative assignments typically can be identified in laws and policy documents as noted in paragraphs 54-63 (i.e. statutes, budget documents, regulations, or strategic plans). Furthermore, evaluation of these documents by the component entity will provide insight if reporting of an organization is required.   |
| #8 NSF CFO   | a. NO NSF COMMENT  |
| #8 NSF CFO<br><b><u>2. Component Reporting Issues- March 2014</u></b>  | b. In the case of FFRDC's, FASAB should consider adding reference to the "Master Government List of Federally Funded Research and Development Centers (FFRDCs)", published annually by NSF. This list could aid in determining FFRDC administrative assignment. The 2013 list can be found at <a href="http://www.nsf.gov/statistics/ffrdclist/">http://www.nsf.gov/statistics/ffrdclist/</a> .  |
| # 9 KPMG<br>Staff notes the term "inclusion entity" was not used in the proposed standard. However, the term disclosure organization is up for | <i>(from their cover letter)</i> In addition, we found the use of the term "inclusion entity" unnecessary and confusing as it is used to refer to organizations whose financial statements were consolidated in those of the reporting entity as well as to describe those organizations for which the reporting entity provides only certain disclosures. We also found it confusing to present guidance related to component reporting entities apart from the guidance related to the government-wide entity. Therefore, we suggest simplifying the statement by providing the principles for identifying consolidated or disclosure organizations based on the characteristics of such organizations at the government-wide and component reporting entity level concurrently within the statement. In doing so, the statement will provide a clear distinction between consolidated and disclosure organizations that will enable consistent implementation and ongoing |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| Board discussion. Staff has also been directed to make other clarifying edits as appropriate but the Board did not direct staff to revamp or restructure the document. | <p>application of the principles both at the government-wide and component reporting entity level. To illustrate this approach, we provide a suggested general structure for the statement with broad comments in Appendix 1.</p> <p>Detailed comments:</p> <p>Identifying organizations component reporting entities are accountable for</p> <p>i. As a result of the comments above, this information is no longer necessary as its own section. Paragraphs 54-56 and 59-63 should be deleted. The concepts included within paragraph 57 (except for item 57b, which we suggest deleting) should be incorporated into the “In the Budget” principle and the concepts included in paragraph 58 should be incorporated into the “control” principle.</p>   |
| #10 Treasury OIG   | No Response  |
| #11 HUD CFO  | a. HUD agrees that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. FHA agrees that component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete. |
| #11 HUD CFO<br><b><u>2. Component Reporting Issues- March 2014</u></b>   | b. HUD agrees that administrative assignments can be identified as provided in paragraphs 54-63, except in the case where an organization is excluded as a result of the three principles, in which exclusion would be misleading. We believe that examples are needed to enhance the judgment of the preparer and the auditor. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans.   |
| #12 TVA CFO  | No response  |
| #13 NASA CFO   | a. NASA agrees that the component reporting entity financial reports should be consistent with data reporting in the GPFFR. It is reasonable to expect the inclusion principles and reporting attributes to be applicable at the component reporting entity level.   |
| #13 NASA CFO<br><b><u>2. Component Reporting Issues- March 2014</u></b>  | b. NASA agrees that administrative assignments can be identified using the criteria in paragraphs 54-63. In particular our interpretation of paragraph 58 a., Statutes or regulations establishing an organization states that it is assigned to or part of a larger federal organization would include the FAR 35.017 that establishes Federally Funded Research and Development Centers (FFRDC) and references the Master List of FFRDCs maintained by the National Science Foundation (NSF).  |
| #14 Department of Homeland Security CFO  | a. Agree, this will be beneficial to stakeholders.   |
| #14 Department of Homeland Security CFO  | b. Disagree, assignments should be codified in statutes or regulations and supported by budgetary appropriations. Professional judgment should play a role not a “pivotal” role. The fact that a federal agency administers federal grants or contracts awarded to an organization should not be a heavily weighted factor in determining consolidation or   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b><u>2. Component Reporting Issues- March 2014</u></b> | exclusion.  |
| #15 Nuclear Regulatory Commission OIG                   | <p>a. I agree that each component reporting entity should report organizations for which it is accountable. This is the same principle that's applied in rolling up and consolidating GAAP financial statements. Without a full consolidation of the component reporting entity including disclosure organizations, it's GPFFR would not be complete making the government wide reporting entity's GPFFR also incomplete. In order to get the full financial picture of the government wide reporting entity, all entities that make up that picture must be complete.</p> <p>b. I agree that administrative assignments can be identified as explained in paragraphs 54-63. The factors provided mostly in par. 58 and 59 provide specific indicators to consider to identify accountability assignments within component reporting entities. Preparers are identified with detailed guidance to follow.</p>   |
| # 16 Federal Reserve System                             | No Response   |
| #17 TVA OIG   | No Response   |
| #18 DOD CFO   | <p>a. Agree. In order to fulfill the completeness assertion, component entities need to report all organizations for which they are accountable, including consolidation and disclosure organizations.</p> <p>This is likely the most challenging aspect for DoD. Each DoD reporting entity would need to determine who is receiving the funds and how DoD influences the organization, including any reporting requirements that DoD has implemented. Once the entities are identified, they would need to implement a process and/or policy to modify their financial reporting requirements to include the "consolidated" and/or "disclosure" entities. Due to the nature of the relationships (e.g., entities may be funded by more than one DoD reporting entity) they may need to determine who will consolidate and/or disclose the information within the DoD. The newly identified entities would likely need to be audit ready -- although, they may already have a clean opinion as they may be commercial entities and may have covenants / requirements for clean opinions. The DoD would need to determine some modified Financial Improvement and Audit Readiness requirements specific to these entities.</p> <p>Additionally, auditors would have to expand their procedures to address these requirements. Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, would be revised. There will likely be new financial reporting requirements as well.</p> <p>b. Agree. The administrative assignments can be identified and are consistent with the three inclusion principles. The criteria appear to be appropriate and comprehensive, especially with the inclusion of the "Misleading to Exclude/or Misleading to Include" paragraphs. Certain entities, although administratively assigned to another entity should be reported separately. Financial information for certain entities needs to be masked within a consolidated entity.</p> |
| #19 Commodity Credit Corporation CFO                    | <p>a. Agree. The reporting of all organizations which a reporting entity is responsible for fully discloses the breadth and scope of a Federal reporting entity. All organizations within the control should be reported.</p> <p>b. Agree. The evaluation items listed in Para 56 provide very clear criteria, especially items a) and b).</p>  |
| #20 Joseph H. Marren                                    | No response   |
| #21 HUD OIG   | We support the Board's position on questions 1 – 4 and 6-11   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p>#22 HHS OIG</p>   | <p>a. The component entity should report in its GPFFR all organizations for which it is accountable. This would include consolidation entities and disclosure organizations for which it has administrative responsibilities. Including all consolidation entities and disclosure organizations ensures completeness of the entity's GPFFR.</p> <p>b. Paragraphs 54-63 adequately identify administrative assignments. No additional administrative assignments need to be identified in the proposed standard at this time.</p>  |
| <p>#23 SEC CFO<br/> <b><u>2. Component Reporting Issues- March 2014</u></b><br/> <b><u>Misleading to Include portion</u></b><br/> <b><u>April 2014</u></b></p> | <p>a. Disagree, because there may be instances where an organization does meet one or more inclusion principles but would be misleading to include.</p> <p>Paragraphs 61 and 62 state that there may be instances where the component entity's financial statements would be "misleading" if the principles in this proposed standard were followed. Although the desire to cover unanticipated future situations is understandable, the purpose of a principle-based standard is to provide principles that should be followed in all known instances. Providing an exception for a broad and undefined reason ("misleading") with no supporting principles or examples would primarily have the effect of creating long-term controversy between preparers and auditors about whether or not the principles in the proposed standard should actually be followed. If there are future unanticipated situations, they should be addressed as such situations have been in the past - by implementation guidance and/or amending the standards.</p> <p>SEC Recommendation: Recommend that paragraph 56 be edited to delete 56c ("misleading to exclude and/or misleading to include"), and that paragraphs 61 and 62 be deleted.</p> <p>b. Disagree, because of the broad exception on "misleading to exclude/misleading to include" with no supporting principles or examples in paragraphs 62-63. See response to Q3a above for rationale.</p> <p>SEC Recommendation: Recommend that paragraph 56 be edited to delete 56c ("misleading to exclude and/or misleading to include"), and that paragraphs 61 and 62 be deleted.</p> |
| <p>#24 DOL OIG<br/> <b><u>2. Component Reporting Issues- March 2014</u></b><br/> <b><u>Misleading to Include portion</u></b><br/> <b><u>April 2014</u></b></p> | <p>a. We agree that each component reporting entity should report on all organizations for which it is responsible in order for the component reporting entity's financial reporting to be complete.</p> <p>In reference to paragraph 59, if an entity is disclosed in more than one component entity's GPFFR or a consolidation entity has a relationship with other reporting entities, such other entities and their relationship should be disclosed in each applicable component entity's GPFFR.</p>   |
| <p>#24 DOL OIG</p>   | <p>b. We agree that administrative assignments can be identified as proposed in the exposure draft detail.</p>  |
| <p>#25 Administrative Office of the US Courts</p>  | <p>No response</p>  |
| <p>#26 GSA CFO</p>   | <p>a. GSA agree that each component reporting entity should report in its GPFFR organizations for which it is accountable, so as to not</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | <p>mislead readers of financial statements.</p> <p>b. GSA agrees. The guidelines seem appropriate.</p>   |
| <p>#27 GWSCPA FISC</p> <p><b><u>2. Component Reporting Issues- March 2014 but also closely relates to temporary</u></b></p> | <p>The FISC generally agrees with the proposed standards and paragraphs related to the identification and inclusion of administrative entities in the GPFRR. However, we suggest that:</p> <p>1. The evaluation of administrative assignments include a criterion that the administrative assignment has been made on an other than temporary basis.</p>   |
| <p>Misleading – December 2013</p>   | <p>2. The ED further defines the circumstances or framework in which the “misleading to include” or “misleading to exclude” situations would occur, as has been suggested by certain Board members in paragraph A28. More information from the Board would be important to allow preparers to form an objective basis of opinion to support the position that an entity would be “misleading to include” or “misleading to exclude.”</p>   |
| <p>#28 Joyce Dillard</p>  | <p>Under</p> <p>56. Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:<sup>24</sup></p> <p>24 Component reporting entities should develop processes to ensure they identify and assess any organizations</p> <p>(1) within the scope of their budget process,</p> <p>(2) for which accountability is established within their component reporting entity, or</p> <p>(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.</p> <p>a. Scope of the Budget Process</p> <p>b. Accountability Established Within a Component Reporting Entity</p> <p>c. Misleading to Exclude and/or Misleading to Include.</p> <p>Regulations are a major part of the Government as our Strategic Plans. The entities governed by regulations are controlled by Federal government agencies. Under what category do you distinguish this relationship?</p> |
| <p>#29 DOL CFO</p> <p><b><u>2. Component Reporting Issues-</u></b></p>  | <p>With regard to paragraph 62, we disagree that an organization may be excluded from the component entity’s consolidation as long as it is consolidated in another component entity or directly in the government-wide reporting entity. We believe that the decision on whether or not to consolidate an organization in the component entity should depend on the interpretation of the accounting standard and should not depend on the financial reporting of another</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p><b><u>March 2014</u></b><br/> <b><u>Misleading to Include portion</u></b><br/> <b><u>April 2014</u></b></p> | <p>component entity or on the financial reporting of the government-wide reporting entity. Therefore, we believe that the following phrase in the last sentence of paragraph 62 should be deleted: “. . . so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.”</p> <p>In the exposure draft, we are not aware of any disclosure requirements for “misleading to include” in the consolidation; we believe that a brief disclosure may improve the reader’s understanding of the financial statements.</p> |
| <p>#30 Intelligence Community</p>  | <p>a. We agree each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it. The underlying principles provided for this are consistent with those outlined for the principles for inclusion in the government-wide GPFFR (e.g., budget inclusion, majority ownership, control, and misleading to exclude). This will ensure the financial statements present a complete picture of the entity.</p>                                |
| <p>#30 Intelligence Community<br/> <b><u>2. Component Reporting Issues- March 2014</u></b></p>                 | <p>b. We agree administrative assignments can be adequately determined by evaluating (1) the scope of the budget process, (2) accountability established within a component reporting entity, and (3) whether it is misleading to exclude/ include in the GPFFR. Paragraphs 54-63 define these in detail and, as noted in the previous response, the concepts are consistent with the principles of inclusion. However, it will be beneficial if FASAB considers providing a concise definition of an administrative assignment.</p>   |
| <p>#31 AGA FMSB</p>  | <p>The FMSB agrees that administrative assignments can be identified as provided for in paragraphs 54 – 63. The important factor in this process is the decision to consolidate or disclose. The rationale provided in paragraph 59 a. and 59.b. provide a sound basis for making a decision.</p>  |
| <p>#32 NSB</p>   | <p>No Response</p>   |
| <p>#33 Treasury Bureau of Fiscal Service (FMS)</p>   | <p>a. Agree – if the criteria exists establishing a consolidation entity or disclosure organization, it should be included in the component reporting entity’s financial statements</p> <p>b. Agree – The referenced paragraphs focus heavily on what constitutes a consolidation entity and a disclosure organization</p>   |
| <p>#34 NRC CFO</p>   | <p>a. Agree, but also need to include the Judicial and Legislative branches of government in paragraph 57.</p> <p>b. Agree</p>   |
| <p>#35 FAF</p>   | <p>No Response</p>   |
| <p>#36 Treasury CFO</p>  | <p>a. Agree. As noted in footnote 24 to paragraph 56, coordinated guidance between central agencies may be required to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable.</p> <p>b. Agree. We agree that administrative assignments can be identified in accordance with the provisions of paragraphs 54-63.</p>  |
| <p>#37 Smithsonian Institute CFO</p>   | <p>No response</p>   |
| <p>#38 FDIC</p>  | <p>No response</p>   |
| <p>#39 US Railroad Retirement Board</p>  | <p>a. Agree</p> <p>b. Agree</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

| QUESTION 4  |  |
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| <p><b>Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations? Please provide the rationale for your answers.</b></p> |  |
| #1 PBGC -Joint Response CFO & OIG   | No response  |
| <p># 2 Holocaust Memorial Museum- CFO</p> <p><b><u>4.Organizations Partially in the Budget-Museums- March 2014</u></b></p> <p><b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b></p>  | <p>I disagree that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. It would be misleading to the readers of the report to include non-federal funding to a government-wide report. These funds are not budgeted, owned or controlled by the federal government. Donations are not appropriated funds and are governed by the donor and not the federal government. The activities that they fund may not be tax payer supported. In addition, there are other laws that govern tax exempt, non-profit organizations. It would be more appropriate to footnote information about the non-federal funds in the government-wide general purpose federal financial report.</p> |
| #3 Office of Personnel Management - CFO   | Agree that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. The funding enables entities to carry out their mission and provide services.   |
| #4 Postal Service- OIG  | No response  |
| #5 SIPC   | No response  |
| #6 DOC CFO  | The Department of Commerce agrees that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. However, material non-federal funding sources ought to be distinguishable in the reports and fully disclosed in the notes.  |
| #7 SSA CFO  | We agree that the component and government-wide reporting entity should consolidate in their entirety organizations for which they are accountable without regard to funding source. This methodology will ensure that both the component reporting entity and the government-wide reporting entity are not misleading if excluded, and are complete when assessing the financial position of the Federal Government and evaluating the cost of operations financed through taxes and other non-exchange revenues.   |
| #8 NSF CFO  | NO NSF COMMENT   |
| <p># 9 KPMG</p> <p><b><u>4.Organizations Partially in the</u></b></p>   | <p>The information presented in paragraphs A14 and A19 should be included in the statement as the paragraphs instead of the Basis for Conclusion. (Although not a specific response to Q4, staff included this comment here as staff believes A19 applies.)</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| Closed | Editorial comments considered w/ June Draft |
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| <b><u>Budget-Museums-<br/>March 2014</u></b><br><br><b><u>1. Organizations<br/>Partially in the<br/>Budget-Museums-<br/>April 2014</u></b>   |  |
| #10 Treasury OIG   | No Response  |
| #11 HUD CFO  | HUD agrees that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. A single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. As stated previously, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete. |
| #12 TVA CFO  | No response  |
| #13 NASA CFO<br><br><b><u>4. Organizations<br/>Partially in the<br/>Budget-Museums-<br/>March 2014</u></b><br><br><b><u>1. Organizations<br/>Partially in the<br/>Budget-Museums-<br/>April 2014</u></b> | NASA disagrees that a component reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. Our rationale is that an organization for which a component reporting entity is accountable may not meet the criteria in paragraph 38 to be a consolidation entity. Given that, the component reporting entity would not consolidate the organization in the financial statements. The sections cited address disclosure also and the question does not.<br><br>NASA also disagrees with disclosing any information not directly related to the use of funds provided by the reporting entity and/or activity not directly controlled by the reporting entity.   |
| #14 Department of Homeland Security CFO  | Agree, reporting on results, relationships, and risks should apply regardless of funding source.   |
| #15 Nuclear Regulatory Commission OIG  | I agree that funding source should not be considered. The purpose of the GPFFR is to assess accountability for managing operations. Government-wide reporting entities can have multiple funding sources that they are accountable for. If funding source was taken into consideration, it would not provide the larger accountability financial picture.  |
| # 16 Federal Reserve System  | No Response  |
| #17 TVA OIG  | No Response  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

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| <p>#18 DOD CFO</p> <p><b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b></p> <p><b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b></p> | <p>Disagree. This proposal seems to be contradictory to what is described in paragraph 43 of the Exposure Draft. An entity receiving donations, as opposed to appropriations, should be considered a disclosure entity, and not consolidated.</p>  |
| <p>#19 Commodity Credit Corporation CFO</p>  | <p>Agree with the inclusion of the entire organization for which a Government reporting entity is responsible. The reporting of only sub-components could lead to misinterpretations of financial data. Sources of funding should be part of the disclosure to allow a reader of the report to more fully understand relationship and sources of funds allowing for operations.</p>  |
| <p>#20 Joseph H. Marren</p>  | <p>No response</p>   |
| <p>#21 HUD OIG</p>   | <p>We support the Board's position on questions 1 – 4 and 6-11</p>   |
| <p>#22 HHS OIG</p>   | <p>The component and government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. This should be for organizations that receive appropriations, donations and/or funding from non-Federal sources. Both component and the government-wide reporting entities need to take into account any funding sources from which there is increased risk to the component entity or to the Federal government, taken as a whole.</p>   |
| <p>#23 SEC CFO</p> <p><b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b></p> <p><b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b></p> | <p>Disagree. This would result in reporting that presents a commingling of the federal government's resources with inflows that do not belong to the federal government. For example, donations to non-profit organizations such as museums generally cannot be used for purposes other than the purposes indicated by the donor; if the donated funds cannot be used for the specified purpose, the donated funds must be returned to the donor. Donations to non-profit organizations such as museums generally would not meet the definition of "revenues" in SFFAS 5 because such donated funds cannot by law increase the net position of the federal government. Because of this, it would be misleading to commingle or combine donations to non-profit organizations with tax and other revenues of the federal government.</p> <p>SEC recommendation: Revenues such as donations to non-profit organizations such as museums currently should not be consolidated in the federal government's financial statements because they do not meet the definition of "revenues" in SFFAS 5. The proposed new requirements should not include any provisions that would be inconsistent with SFFAS 5. This could be explicitly stated in a new footnote, perhaps to paragraph 54 of the ED:</p> <p><u>"Assets, liabilities and revenues that do not meet the definition of assets, liabilities and revenues in SFFAS 5 should not be consolidated in the financial statements of the federal government-wide reporting entity or any federal component entity."</u></p> |
| <p>#24 DOL OIG</p>   | <p>We agree that each entity determined to be a component entity should be included in its entirety. An entity should not be split in terms of</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | reporting, it is either a component entity or it is not.   |
| #25 Administrative Office of the US Courts  | No response  |
| #26 GSA CFO<br><b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b><br><br><b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b> | GSA understands the rationale for consolidating financial information for all entities/organizations, even when sources such as donations are involved. However, this will probably be very burdensome because:<br><br>1. This financial information will need to be obtained, and some organizations may not agree with the Federal agency on inclusion;<br><br>2. Reporting periods may not be the same; and<br><br>3. Reporting criteria and breakouts may not be similar.<br><br>These relationships should be reviewed and it may be determined to bring many of these organizations into the Federal agency. |
| #27 GWSCPA FISC   | The FISC agrees with the inclusion of all funding sources for all consolidation entities, but we suggest that the definition of consolidation entities include a requirement that the relationship between the organization and the federal government be other than temporary in nature.  |
| #28 Joyce Dillard   | Consolidation is preferable. From a Public perspective, private fundraising on a government entity, whether component or disclosed. We are seeing a trend to produce non-tax-exempt income on entities where decision making is controlled by the government. Protection of assets is an issue not addressed. Collections and other valuable assets need to be disclosed to the Public.  |
| #29 DOL CFO   | No comment   |
| #30 Intelligence Community  | We agree all reporting entities should consolidate all organizations for which they are accountable; no matter what the funding source is (this should all be disclosed too).  |
| #31 AGA FMSB  | The FMSB agrees that if the decision to consolidate is made, it is in an all-inclusive manner. The basis for consolidation versus disclosure will hinge for the most part upon the issue of control. As such if control is considered sufficient, all the financial results for the entity should be included. Providing only a partial view of the financial results benefits no one.   |
| #32 NSB   | No Response  |
| #33 Treasury Bureau of Fiscal Service (FMS)   | Agree – Once an entity falls into the “consolidation entity” classification, all of its financial data should be reported accordingly  |
| #34 NRC CFO   | Agree.   |
| #35 FAF   | No Response  |
| #36 Treasury CFO  | Agree. Federal reporting entities should consolidate in their entirety organizations for which they are accountable without regard to funding source.  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #37 Smithsonian Institute CFO<br><br><b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b><br><br><b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b> | We strongly disagree with the exposure draft position of consolidation of each component reporting entity and government-wide reporting entity regardless of funding source. This position is in contrast to the tenants of consolidation accounting, that is to say, component reporting entities should be consolidated based upon funding source; otherwise, the reader will be misled in terms of comparing apples with oranges. Funding sources to a governmental entity outside the federal government appropriation process (OMB circular A-11) CANNOT be “commingled” with appropriated funds. These funding sources are under the mandate of the donor in terms of purpose and time restriction. Upon fulfillment of these two restrictions, of course, the nature of the funding is changed from either restricted or temporarily restricted to unrestricted. Question: How can this change of color of money be captured in this proposed exposure draft? What is the value or importance to the reader of “confusing and misleading” statements? Generally speaking, this proposed exposure draft will only confuse the reader more; and, thus render the ability for the reader (taxpayer) to make a rational decision to be nullified. If the Board is interested in making this proposal palatable to the reader, then, perhaps, a footnote disclosure is warranted in which non-federal funding can be identified and reported separately. |
| #38 FDIC  | No response  |
| #39 US Railroad Retirement Board  | No response, referred to Q2a.  |

| <b>QUESTION 5</b>   |   |
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| <b>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.</b> |   |
| #1 PBGC -Joint Response CFO & OIG<br><br><b><u>6. FASB Based Information- Dec 2013</u></b>  | We disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate.<br><br>PBGC applies FASB GAAP for financial statement reporting, and provides intragovernmental FASB to FASAB conversion information with its Government-wide Financial Report System (GFRS) closing package.<br><br>The proposed standard in the Exposure Draft would require PBGC to provide intragovernmental FASB to FASAB conversion information with its own standalone financial statements. PBGC’s financial statement users expect and understand FASB GAAP, and will not likely understand or use this FASB to FASAB conversion information. Further, the FASB to FASAB conversion information amounts would likely be material to PBGC's standalone financial statements.<br><br>As noted by the majority of the FASAB members who commented on this issue at the June 27, 2012 meeting, any requirement to provide conversion information with the standalone entity's financial statements would not be necessary if conversion information was provided in the closing package.<br><br>Accordingly, we recommend the continuation of our current practice to provide intragovernmental FASB to FASAB |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|  | conversion information with the GFRS closing package.   |
| # 2 Holocaust Memorial Museum- CFO   | No response   |
| #3 Office of Personnel Management - CFO                                    | Agree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate, per SFFAS 34. The disclosure of intragovernmental amounts facilitates any elimination entries required.  |
| #4 Postal Service-OIG<br><b><u>6. FASB Based Information- Dec 2013</u></b> | <p>We agree with the FASAB’s proposal that consolidation of FASAB and FASB based information without conversion is appropriate. The proposal is consistent with the FASAB's prior position on the matter.<sup>15</sup> Further, with respect to the Postal Service financial statements prepared in accordance with FASB standards, the FASAB standards have not had a material effect regarding changes prior to submitting financial information to the U.S. Department of the Treasury (Treasury) for the consolidated government-wide financial statements.</p> <p>We noted paragraph 66 necessitates a component entity using FASB based information to disclose intragovernmental amounts measured in amounts in accordance with federal accounting financial standards to facilitate elimination entries in the government-wide financial statements. We believe this is an unnecessary condition. First, it results in financial statements presented with two accounting standards and, despite accompanying explanations, can be confusing to a reader. Also, after fiscal year end, federal entities must submit financial information to Treasury for the consolidated government-wide financial statements. The financial information must identify intragovernmental amounts, thus supplanting the need for entities using FASB based information to identify such amounts in their published financial reports.</p> <p>With implementation of this standard, there could exist a future conflict between it and Treasury's requisite. In recent years, the Treasury Financial Manual<sup>16</sup> has required agencies using FASB based accounting standards to convert to FASAB based standards prior to submitting financial information for consolidation in the government-wide financial statements. Should Treasury's requirement remain, the conflicting positions would need resolution. Various federal agencies, including the FASAB, might need to discuss and resolve the opposing requirements in favor of the proposed Statement.</p> |
| #5 SIPC  | No response   |
| #6 DOC CFO<br><b><u>6. FASB Based Information- Dec 2013</u></b>            | The Department of Commerce disagrees with consolidating FASAB and FASB information without conversion for consolidation entities. Considering that the GPFFR has been prepared under FASAB, consolidation with FASB could make comparison to prior years GPFFR difficult. SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board, dictates using FASAB to prepare the GPFFR. We would recommend addressing this idea separately due to its significance.  |
| #7 SSA CFO   | We agree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate because Statement of Federal Financial Accounting Standards 34 defines FASAB as the preferred method of reporting for Federal entities.  |

<sup>15</sup> Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.*

<sup>16</sup> I TFM 2-4700, Agency Reporting Requirements for the *Financial Report of the United States Government*, Subsection 4705.25.

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|   | FASAB also is responsible for identifying the GAAP hierarchy for Federal reporting entities. Additionally, converting FASB-based information to a FASAB basis may not be cost-effective, and FASAB and FASB both use accrual-based information.   |
| #8 NSF CFO  | NO NSF COMMENT  |
| # 9 KPMG<br><b><u>6. FASB Based Information- Dec 2013</u></b>         | <p>Although paragraph 65 indicates no new disclosures are needed for consolidated organizations, the last sentence of paragraph 66 implies that there are additional disclosure requirements for consolidated entities that follow FASB standards. The required disclosures in paragraph 66 should result in an amendment to SFFAS 34. Further, we believe that there are appropriate disclosures that should be required, such as the significant organizations being consolidated.</p> <p>Paragraph 65 states, “Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34.” SFFAS 34 recognizes FASAB standards and FASB standards as GAAP for federal reporting entities. This paragraph implies that a consolidated organization that does not follow FASAB or FASB GAAP (such as a GASB entity) would need to convert their financial statements to either FASAB or FASB GAAP. The statement is silent as to how to consolidate GASB entities and as a result we suggest including guidance on how to consolidate a GASB entity.</p> <p>Paragraph 66 states that FASB entities need not be converted to FASAB for consolidation; however this paragraph should address how accounting aspects unique to FASAB GAAP (such as budgetary accounting) be obtained from a FASB entity if conversion is not required. Further, under current practice, federal reporting entities that consolidate FASB GAAP entities do currently convert the financial information to FASAB GAAP before consolidation. Paragraph 66 would cause a change in the current practice.</p> <p>Paragraph 66 also uses the term consolidation entity to refer to the entity doing the consolidation—the government wide reporting entity—as well as those entities being consolidated. To reduce confusion, we suggest that the statement use the term consolidated organization to refer to the organization being consolidated.</p> |
| #10 Treasury OIG<br><b><u>6. FASB Based Information- Dec 2013</u></b> | We disagree that consolidation of FASAB and FASB based information without conversion is appropriate. The consolidation of material FASB based financial information that has not been converted to the FASAB basis of accounting used for the consolidated entity reporting, could result in a material misstatement and a qualified audit opinion on the consolidated entity’s financial statements, and in the worst case, an adverse audit opinion, if the resulting misstatement is pervasive to the consolidated financial statements. A good example of an area where potential material differences in reporting between FASB and FASAB standards could arise is in the accounting for direct loans and loan guarantees.  |
| #11 HUD CFO   | <p>HUD agrees that consolidation of FASAB and FASB based information without conversion for consolidation entities could be appropriate. However, it could also add confusion for the reader if there are multiple accounting methodologies reporting similar activities. For example, the confusion would occur wherein there were differing amounts for a component in its stand-alone statements and in the consolidated statements of the larger organization. Therefore, disclosure of the basis of accounting can provide clarity as to the governing body of the entity’s reporting (FASB v FASAB).</p> <p>SFFAS 34 provides that GPFRRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|   | conformity with GAAP, so consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) would be able to 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 organizations.   |
| #12 TVA CFO   | As adopted, SFFAS 34 allows that certain federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by FASB and these reports may be regarded as in conformity with generally accepted accounting principles (GAAP). TVA agrees in part with paragraph 66 which states that consolidation entities should consolidate component reporting entity or sub-component financial statements for consolidation entities in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations.   |
| #12 TVA CFO<br><br><b><u>6. FASB Based Information- Dec 2013</u></b>  | <p>However, TVA does not agree with the last sentence of paragraph 66 which states that “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” and recommends it be removed.</p> <p>TVA’s reason for the removal of the sentence is that the primary users of TVA’s financial statements are financial institutions, bondholders, investors, banking trade groups, and customers. These users expect TVA’s financial statements to be prepared in accordance with FASB GAAP as required by the Securities and Exchange Commission with whom TVA is required to file financial statements. To present a second set of financial statements with intragovernmental amounts measured in accordance with FASAB standards could be confusing to the user. Also, conversion of information may not be cost-effective at a time when agencies are being asked to evaluate work efforts in order to be more cost-conscious.</p> <p>Concern for the elimination of intragovernmental activity for the government-wide financial statement could potentially be resolved by Treasury through its Governmentwide Financial Report System Closing Package instructions as contained in Treasury’s Financial Manual and its Intragovernmental Transactions Policy. Both documents may more appropriately address the mechanics of eliminating entries for the consolidated GFRS.</p> |
| #13 NASA CFO  | NASA agrees that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate. Our rationale is that the financial statement presentation by both standards is based on the GAAP, accrual based accounting. In addition, the presentation of a component entity’s financial information should be consistent in both their individual financial reports and the government-wide financial reports.   |
| #13 NASA CFO<br><br><b><u>6. FASB Based Information- Dec 2013</u></b> | However, NASA does not agree with making this requirement effective prior to receiving guidance related to tie points between budgetary and proprietary accounts or specifying which reports are required. FASB does not require budgetary accounts and addition of proprietary accounts alone will cause out of balance conditions not accepted during annual reporting.  |
| #14 Department of Homeland Security CFO                               | We agree that conversion need not be required when consolidating. However, disclosures should include any significant differences caused by different accounting treatments when entities use FASB vs. FASAB.  |
| #15 Nuclear Regulatory  | I disagree that consolidation entities based on two different standards are appropriate in all cases without conversion. Even though both standards are based on accrual rules, other accounting rules are different and can result in different   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| Commission OIG<br><b><u>6. FASB Based Information- Dec 2013</u></b>  | account balances that could be material. I think that an analysis of the account balance differences based on different accounting standards should be completed and the materiality concept applied. If there is a material difference, then the balances should be converted to the government-wide reporting entity accounting standards. To do otherwise could be misleading to the GPFRR user.   |
| # 16 Federal Reserve System  | In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively). Reconciling these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.  |
| #17 TVA OIG  | After consultation with my staff, I would like to offer our considered opinion on the issue posed in question 5. While we agree with the first part of paragraph 66, consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate,  |
| #17 TVA OIG<br><br><b><u>6. FASB Based Information- Dec 2013</u></b> | <p>we do not agree that any component 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.</p> <p>The restatement of intragovernmental amounts from FASB to FASAB based amounts would not benefit users of the TVA general purpose (standalone) financial statements and would most likely confuse its users, including those in the financial and investor community who need TVA financial information presented consistently with that of other comparable public companies who also file FASB based reports with the Security and Exchange Commission. Since it is necessary for the intragovernmental amounts to be stated consistent with the FASAB standards solely for the purpose of eliminating these amounts during consolidation in preparing the government-wide financial statements, any differences in account balances caused by the use of different accounting standards could be better identified and resolved during the reconciliation process that occurs quarterly between federal trading partners using guidance provided accordingly in the Treasury Financial Manual. The reconciled amounts could then be used to eliminate the intragovernmental balances and compile the government-wide statements without reducing the understandability and usefulness of the components' general purpose (standalone) financial statements.</p> <p>Accordingly, we recommend the following statement in paragraph 66 in the proposed Statement be removed:<br/>                 “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.”</p> |
| #18 DOD CFO  | Agree. Since the objective is to incorporate all required components into the GPFRR, entities with differences in accounting standards should still be consolidated, in accordance with SFFAS 34. In addition, a disclosure of the differences in accounting methodologies should be required. FASB reporting entities need to provide intragovernmental balances based on FASAB standards to allow for the proper elimination of intragovernmental activity. Intragovernmental differences are one of the causes of the disclaimer the GPFRR   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | receives each year.   |
| #19 Commodity Credit Corporation CFO<br><br><b><u>6. FASB Based Information- Dec 2013</u></b> | Disagree. Federal Financial Reporting should consistently follow FASAB guidance. The mixing of reporting standards could mislead a reader and provide confusion for the report users.   |
| #20 Joseph H. Marren  | No response   |
| #21 HUD OIG<br><br><b><u>6. FASB Based Information- Dec 2013</u></b>                          | <p>We do not agree that the consolidation FASAB and FASB based information without conversion is appropriate. HUD insures mortgages for single family and multifamily dwellings through its mortgage insurance programs administered by Federal Housing Administration (FHA). HUD also guarantees, through Government National Mortgage Association (Ginnie Mae), the timely payment of principal and interest on Mortgage-Backed Securities issued by approved private mortgage institutions and backed by pools of mortgages insured by the FHA, U.S. Department of Agriculture, U.S. Veterans Affairs, and HUD's Office of Public and Indian Housing. As component entities, Ginnie Mae (prepared using FASB standard) and FHA's financial information (prepared using FASAB standard) are reported to HUD for consolidation.</p> <p>In HUD-OIG's view, consolidating financial information using different basis of accounting can provide misleading information to the users of HUD's financial statements. This is true, even with additional disclosures, especially in instances where material differences between FASB and FASAB accounting standards could result in very different accounting outcomes. This scenario applies to HUD because Ginnie Mae's FASB based information is reported to HUD for consolidation and the FASB and FASAB conversion information is material to HUD's group financial statements. Further, transactions between Ginnie Mae and FHA (as component reporting entities of HUD) with regard to defaulted insured mortgages had generated material intragovernmental balances and activities in their respective books in recent years, but each prepare stand-alone financial statements using FASB and FASAB accounting standards respectively.</p> <p>The Board also indicates that, as a consideration for its proposal to allow consolidation of different basis of accounting without conversion, the conversion imposes a cost and it is not clear that the cost is justifiable based on the benefits to the user. However, the additional disclosure provision in the ED would most certainly require entities to incur additional disclosure costs already and therefore the cost conversion concern should not have significant incremental effect.</p> <p>Accordingly, we recommend the Board to reconsider its position to not allow consolidation without conversion in cases where material differences exist between FASB and FASAB accounting standards. Additionally, with respect to the additional disclosure requirement on intragovernmental amounts proposed in the ED, the Board needs to clarify whether the requirement is only required in the component entity's stand-alone financial statements or both the</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | component and parent/group management entity’s financial statements.  |
| #22 HHS OIG  | HHS prepares its financial statements in accordance with standards established by FASAB. This question is directed to those entities that prepare their GPFFR in accordance with standards established by FASB. A more appropriate response could be provided to Treasury, GAO and the agencies that prepare their standards in accordance with standards established by FASB.  |
| #23 SEC CFO<br><br><b><u>6. FASB Based Information- Dec 2013</u></b> | <p>Disagree. The consolidation of FASB-based information into a component entity financial statement is likely to be unachievable because federal component entities are required to prepare a Statement of Budgetary Resources and a footnote that reconciles its budgetary and proprietary information. FASB-based financial statements do not include a Statement of Budgetary Resources or other budget-related classifications required for federal reporting entities, such as which of its expenses are “future funded” and which of its liabilities are “covered or not covered” by budgetary resources. Because of this, if FASB-based financial information were consolidated with FASAB-based information, the component entity’s required reconciliation of budgetary and proprietary data would likely be forced out of balance.</p> <p>The consolidation of mixed-basis data would also likely create technical problems for component-level reporting to Treasury because FASB-based organizations are not required to use the U.S. Standard General Ledger chart of accounts with required account attributes that Treasury needs in order to prepare the consolidated government-wide financial statements.</p> <p>The component entity’s USSGL-compliant trial balances are currently required to fully support the component entity’s audited financial statements; this would not be possible with mixed-basis component-level financial statements because the FASB-basis data would not have sufficient information for USSGL-compliant trial balances. In addition, certain relationships between budgetary and proprietary information (edit check known as “tie points” are required for reporting to Treasury. Those relationships would almost certainly be forced out of balance if FASB-basis data is consolidated with FASAB-basis data.</p> <p>If the proposed standard results in numerous organizations newly classified as part of the federal government, this would likely also create challenges for Treasury regarding intragovernmental eliminations and reporting on debt held by the public versus intra-governmental debt.</p> <p>Other implementation difficulties would include differences in fiscal year-end, because many FASB-based entities report on a calendar-year basis. It would be inappropriate to consolidate stale data with more current data into financial statements, because the title of the financial statements (“as of” and “for the period ended”) would be inaccurate and hence misleading. However, reliable and timely data is generally not available from organizations that to prepare financial statements on a calendar year, and/or available timely enough to be included in the component entity’s audited statements and notes.</p> |
| #24 DOL OIG  | We agree that any the consolidation entities should be consolidated without conversion of FASB-based information to a FASAB basis. We agree with the Board’s discussion that to do so could cause confusion due to differing amounts presented, but also could raise questions about the appropriateness of the entity’s method of accounting.  |
| #25 Administrative Office of the US Courts                           | No response   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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**Editorial comments considered w/ June Draft**

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| <p>#26 GSA CFO<br/><b>6. FASB Based Information- Dec 2013</b></p>                | <p>No, it will be very difficult to combine financial statements unless reporting is based on same guidelines.</p>   |
| <p>#27 GWSCPA FISC<br/><b>6. FASB Based Information- Dec 2013</b></p>            | <p>The FISC generally agrees that the consolidation of FASAB and FASB-based information without conversion for consolidation entities is appropriate. We suggest that the Board:</p> <ol style="list-style-type: none"> <li>1. Include guidance on the conversion or consolidation of GASB-based information. There could be circumstances in which a consolidation entity could be a state-controlled organization, and the ED does not address the circumstances of what a GASB-based organization should do to comply with this Standard.</li> <li>2. Add additional information in the ED on the Board’s views on methods for consolidation of FASB entities into FASAB-based general purpose financial reports, such as whether the equity, cost, or acquisition consolidation method is preferred, and how an agency should handle consolidation of entities with year-ends other than September 30.</li> </ol> <p><i>Staff notes GWSCPA FISC also included the following in response to Q2:</i></p> <p>Finally, we suggest that the Board remove the requirement in paragraph 66 that requires FASB-based organizations to disclose intragovernmental amounts measured in accordance with federal financial accounting standards. Such a requirement for disclosure in the FASB-based organization’s GPFFR does not appear to meet the requirement for general-purpose reporting since the disclosure is needed solely to facilitate elimination entries in the preparation of the government-wide financial statements. In addition, reporting in accordance with two bases of GAAP (i.e., FASB and FASAB) may lead to unnecessary confusion among the users of the FASB-based organization’s financial statements. Such intragovernmental information could continue to be reported to the U.S. Department of Treasury through the Closing Package process.</p> |
| <p>#28 Joyce Dillard</p>   | <p>It should be noted that no conversion took place. At a point in time, you may wish to analyze if this decision is the proper one.</p>   |
| <p>#29 DOL CFO</p>   | <p>No Comment</p>  |
| <p>#30 Intelligence Community<br/><b>6. FASB Based Information- Dec 2013</b></p> | <p>We disagree; it is not appropriate to consolidate FASAB- and FASB-based information without conversion for consolidation entities. Consolidating amounts without regard for differences that may result from the differing accounting standards being used by the reporting entity and the consolidation entity may result in inconsistency in financial reporting. The proposed standards should include guidance related to material differences between FASB and FASAB accounting standards.</p> <ul style="list-style-type: none"> <li>• Situations may occur in which different accounting standards are applied to different entities, which could lead to possible presentation and disclosure conflicts when they are consolidated.</li> <li>• The use of different accounting standards reduces the confidence users and prepares have in the qualitative</li> </ul>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | <p>characteristics of the financial reports specifically consistency, comparability, reliability, and understandability.</p> <ul style="list-style-type: none"> <li>Situations may arise in which there is a high opportunity cost to convert all financial statements and reports from FASB to FASAB and the cost outweighs the potential benefit. In these situations, the entity should evaluate the material impact of various accounting differences between the two standards and convert only those that would significantly change or could significantly change the presentation of the financial reports and the decision making of stakeholders and users.</li> </ul> <p>The board should consider the inclusion of principles discussing the requirements and guidance related to consolidation concerns when evaluating differences between FASB and FASAB. This could significantly mitigate costs of interpretation, provide clarity on the subject matter for preparers of a GPFFR, and enhance the usefulness of financial reports for users and stakeholders.</p> |
| #31 AGA FMSB   | The FMSB agrees that the consolidation of FASAB and FASB based information without conversion is appropriate. Restatement of FASB information to a FASAB basis will provide opportunities for errors to occur and may require effectively two sets of records. Furthermore the information based on FASB principles are used by management and should stay as originally prepared.  |
| #32 NSB  | No Response   |
| #33 Treasury Bureau of Fiscal Service (FMS)<br><b><u>6. FASB Based Information- Dec 2013</u></b> | <p>Disagree – although FASB is in compliance with GAAP, FASAB follows budgetary accounting reporting principles which do not apply to FASB; Without the reporting entity and organizational unit following the same accounting standards, USSGL propriety/budgetary tie points will not reconcile if the USSGL data for the tie points is derived from the consolidated trial balance which would be uploaded to FACTS I and II and/or GTAS for government-wide reporting; if the organization unit is not included in the FACTS I and II/GTAS trial balance, then how will the entity’s data be reported government-wide?</p> <p>In addition, the government-wide financial statements are reported on a FASAB basis; therefore, agencies need to convert to FASAB before reporting to the government-wide level.</p>  |
| #34 NRC CFO<br><b><u>6. FASB Based Information- Dec 2013</u></b>                                 | Disagree, there should be one consistent accounting basis for Federal accounting and reporting, which is FASAB.   |
| #35 FAF  | No Response   |
| #36 Treasury CFO   | Agree. Consolidation of FASB-based accounts of component entities without conversion may be appropriate for agencies that publish financial reports pursuant to FASAB standards, particularly if differences between the two bases of accounting for these entities are not significant. Certain of Treasury’s component entities, including Bureau of Engraving and Printing and the Exchange Stabilization Fund, maintains their financial accounts and prepare stand-alone audited financial reports on a FASB basis. Currently, we convert their accounts to FASAB accounts prior to consolidating them. While the provisions of the ED may eliminate the burden of conversion in the future, we do express concern as to potential new issues that may arise with regards to budgetary accounting and financial reporting requirements associated with these FASB accounts which are currently addressed when these FASB accounts are converted to FASAB   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | accounts.  |
| #37 Smithsonian Institute CFO                                     | No response  |
| #38 FDIC  | The ED's paragraph 66 proposes that consolidation entities should consolidate component or sub-component entities that prepare financial statements pursuant to the Financial Accounting Standards Board (FASB) without conversion for any differences in accounting policies among the organizations. Paragraph 66 also proposes that any component entity that publishes financial reports pursuant to the FASB "should disclose intragovernmental amounts measured in accordance with [F]ederal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements." The FDIC agrees that FASB statements should not require conversion to FASAB. However, we do not support the disclosure of intragovernmental amounts measured in accordance with FASAB in FASB-based financial statements. Doing so may cause confusion because the information is not relevant to our main constituency, which includes banks, thrifts, and the financial industry in general. Furthermore, disclosing this information would be duplicative, and hence not cost beneficial because we already provide it to the constituency to which it is relevant and needed; that is, the U.S. Treasury.   |
| #38 FDIC<br><br><b><u>6. FASB Based Information- Dec 2013</u></b> | On a related note, we found the proposal confusing on this point because it does not specify where the disclosure would be made nor does it specify the intragovernmental amounts that would facilitate elimination entries for preparing the government-wide financial statements. As a result, we interpreted the ED to mean that the FASAB-based, intragovernmental disclosure would be required in our calendar-year, FASB-based statements. Intragovernmental elimination amounts are already addressed in the compilation procedures of the Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, Agency Financial Reporting Requirements for the Financial Report of the U.S. Government (see Appendices 6 through 10). The TFM is used to provide this information to the U.S. Treasury via the Governmentwide Financial Report System (or GFRS) that agencies use to prepare the Financial Report of the U.S. Government. As such, we believe this practice should continue as it appears to provide the Treasury the information it needs. Again, we believe the proposal is duplicative because we already provide this information to the Treasury and, if required to be disclosed in our calendar-year FASB statements, it would not be relevant to our statements and would likely cause confusion to the users of the FDIC financial statements. |
| #39 US Railroad Retirement Board                                  | No comment   |

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| <b>QUESTION 6</b>  |             |
| <p><b>a. Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.</b></p> <p><b>b. Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.</b></p> |             |
| #1 PBGC -Joint Response CFO & OIG  | No response |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| # 2 Holocaust Memorial Museum- CFO   | No response  |
| #3 Office of Personnel Management - CFO  | a. Agree with the minimum disclosures for the central banking system.<br>b. N/A  |
| #4 Postal Service- OIG   | No response  |
| #5 SIPC  | No response  |
| #6 DOC CFO   | a. The Department of Commerce agrees with the minimum disclosures for the central banking system. However, additional disclosures may be necessary due to the unique nature of reporting requirements for the central banking system.<br>b. The Department of Commerce does not believe there are other significant organizations for which minimum disclosures should be made.  |
| #7 SSA CFO   | a. We agree with the minimum disclosures for the central banking system because reporting it as a consolidation entity would considerably alter the Federal financial reporting of the Government as it pertains to securities, deposits, expenses, and revenues. The Federal Reserve System (FRS) performs a unique function in the Federal Government as it relates to governance, structure, and activities. Classifying FRS as a disclosure organization will help users in understanding an organization of this type.<br>b. We are not aware of any other significant organizations that FASAB should consider for minimum disclosure. |
| #8 NSF CFO   | NO NSF COMMENT   |
| # 9 KPMG<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b> | We believe that when applying the principles (In the Budget and Control) to the central banking system, that a reporting entity could conclude that the central banking system would not be a consolidated or disclosure organization. If the Board believes that at a minimum the central banking system should be considered a disclosure organization, then we believe this requirement should be stated within the Principles section of the statement. We further believe that paragraph 77 should be deleted as the minimum disclosure requirements provide the necessary disclosures for all disclosure organizations.                |
| # 9 KPMG<br><b>7. Other Organizations- April 2014</b>  | The ED addresses the central banking system because of its uniqueness. We also believe that the Treasury General Fund should be addressed within the statement for the same reason. The consolidation of the Treasury General Fund would appear to be required based upon the application of the “control” principle, but the entity to which it should be consolidated should be specified within the statement. (Appendix 4 V1)  |
| #10 Treasury OIG   | No response  |
| #11 HUD CFO  | a. HUD agrees with the minimum disclosures for the central banking system. The disclosures should be integrated so that concise, meaningful and transparent information is provided.<br>b. HUD believes there may be other significant organizations for which minimum disclosures should be made, depending on the circumstances. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure organizations.   |
| #12 TVA CFO  | No response  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #13 NASA CFO   | NASA neither agrees nor disagrees with this statement.  |
| #14 Department of Homeland Security CFO  | <p>a. We agree with some of the minimum disclosures relating to the central banking system, we do not believe new or onerous reporting requirements are needed.</p> <p>b. We do not believe there are other significant organizations that won't be included in the three inclusion principals. Standards should include organizations that are significant and do not leave flexibility to include organizations based on subjective criteria.</p>   |
| #15 Nuclear Regulatory Commission OIG  | <p>a. I agree with the minimum disclosure requirements. The disclosures are comprehensive and complete. I think that any additional disclosures would be excessive and not add value to the GPFRR users.</p> <p>b. I am not aware of any other significant financial organizations that might require minimum disclosure.</p>   |
| <p># 16 Federal Reserve System</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p> | <p>I. The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.</p> <p>The Federal Reserve System provides a substantial amount of information to the public, and its financial reporting practices are particularly robust. Each week, the Board publishes the balance sheet of each Reserve Bank along with other significant financial information on their assets and liabilities. The Board also publishes an annual independent audit of the financial statements of the Board, each of the twelve Reserve Banks, and the combined Reserve Banks. The Board began publishing an unaudited quarterly combined Reserve Banks' financial report in 2012. The annual audited Board and Reserve Bank financial statements, and the Reserve Banks' weekly and quarterly financial reports can be accessed from the Board's public website at <a href="http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm">http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm</a>. We believe that the information we provide to the public demonstrates our ongoing commitment to transparency and should be sufficient for meeting the purposes of the standard without incurring additional costs.</p> <p>V. The provisions related to minimum disclosures for the central banking system are unnecessary.</p> <p>The disclosure requirements for the central banking system described in paragraph 77 are inconsistent with the FASAB's objective of providing a principles-based standard. We believe that applying the proposed standard's inclusion principles and disclosure requirements that are applicable to all other organizations will result in an appropriate level of disclosures of Federal Reserve System financial information. The proposed disclosures for disclosure entities and the minimum disclosures for the central bank are very similar, even though the two sets of disclosures are described somewhat differently. For example, paragraph 73a, which is applicable to all disclosure organizations, requires disclosure of "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." That requirement is substantially the same as the minimum disclosure requirement for the central bank described in paragraph 77b, which requires disclosure by the central bank of "significant roles and responsibilities (and how these relate to federal policy objectives)." We recommend deleting paragraph 77 in its entirety.</p> <p>VI. The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.</p> <p>FASAB's authority, which is derived from statutory authorities of the OMB, GAO, and Treasury, does not include</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>authority to impose reporting requirements on the Board and Reserve Banks, given that (1) the Board is an independent entity in the executive branch; (2) neither the Board nor the Reserve Banks have reporting or other relationships to FASAB; and (3) Congress has separately established the financial reporting requirements applicable to the Federal Reserve System and vested final authority over those reports in the Board without directing the Board or the Reserve Banks to issue financial statements in accordance with FASAB requirements. To the extent requirements to report about the Federal Reserve System would be imposed on another entity, such as the Department of the Treasury, it is unclear how the Treasury can be expected to fulfill this obligation when the requested information pertains to the central bank, not the Treasury, and the central bank does not report to the Treasury.</p> <p>The Board’s statutory powers and reporting requirements largely address the issues in the proposed statement. These statutory provisions take precedence and the proposal would be in conflict with them. For example, Congress has addressed its expectation regarding transparency of Federal Reserve System financial information.</p> <p>Public Access to Information- the Board shall place on its home Internet website, a link entitled “Audit”, which shall link to a webpage that shall serve as a repository of information made available to the public for a reasonable period of time, not less than 6 months following the date of release of the relevant information, including—</p> <ol style="list-style-type: none"> <li>(1) the reports prepared by the Comptroller General under section 714 of title 31, United States Code;</li> <li>(2) the annual financial statements prepared by an independent auditor for the Board in accordance with section 11B;</li> <li>(3) the reports to the Committee on Banking, Housing, and Urban Affairs of the Senate required under section 13(3) (relating to emergency lending authority); and</li> <li>(4) such other information as the Board reasonably believes is necessary or helpful to the public in understanding the accounting, financial reporting, and internal controls of the Board and the Federal reserve banks. [12 U.S.C. 225b.]</li> </ol> <p>In addition, as required by statute, the Board includes in its annual report to Congress a full account of its operations. To the extent the information you seek in the proposed statement is included in the Board’s existing reports, we suggest that you reference these reports in the GPFRR.</p> <p>VII. We disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.</p> <p>The proposed disclosures and the minimum disclosures both include a requirement to disclose future exposures to gains and losses from future operations. Such information about future events is very difficult to audit and including such information in audited financial statements provides a false sense of reliability to such information. Further, preparers of the financial statements are unable to predict future monetary policy actions or when they will occur. Although it may be possible to report on contingencies arising from past events, it would not be feasible to report relevant and reliable financial information about pre-decisional future operations of the central bank that could be audited. The Federal Reserve System does not include forecasts and forward-looking information in the financial statements of the Board and the Reserve Banks. Instead, as it deems appropriate, such information is provided through other means. We recommend removing the disclosure requirements related to future exposures from paragraphs 72 and 73 of the</p> |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | <p>proposed standard.</p> <p>VIII. The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.</p> <p>Paragraph A32, footnote 57, in the proposed standard describes the Federal Reserve System as comprised, in part, of the CFPB. When Congress created the CFPB as a part of the Federal Reserve System, it provided that the CFPB's financial statements "shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System." The proposed standard should be clarified in this regard and, specifically, the references to the CFPB should be removed from the footnote.</p> |
| #17 TVA OIG   | No Response  |
| #18 DOD CFO   | <p>a. Agree. If the central banking system is reported as a disclosure entity, it should be subject to the minimum disclosure requirements mentioned within this exposure draft.</p> <p>b. Yes. All segments of the government that are not consolidated entities should be required to provide disclosure information. This is consistent with GAAP principles and enhances government transparency and accountability to the public. However, we do not know of any specific entities that fall into this category.</p>  |
| #19 Commodity Credit Corporation CFO  | <p>a. Agree. The emphasis of the disclosure however should be from the Reporting Entities viewpoint and outline its business relationship and interactions with the Central Banking System.</p> <p>b. None to add.</p>   |
| <p>#20 Joseph H. Marren</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p> | <p>The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government's consolidated financial statements will remain substantially misleading.</p>   |
| #21 HUD OIG   | We support the Board's position on questions 1 – 4 and 6-11  |
| #22 HHS OIG   | <p>a. Since HHS prepares its financial statements in accordance with standards established by FASAB and prepares its required disclosures, it is not appropriate to comment on this area. These questions are directed more to the Federal Reserve, Treasury, OMB and GAO. A more appropriate response would be obtained by these entities.</p> <p>b. Not aware of any other significant organizations for which minimum disclosures should be made.</p>   |
| #23 SEC CFO   | <p>a. The SEC has no objections to the proposed minimum disclosures.</p> <p>b. The SEC is not aware of any other significant organizations for which minimum disclosure should be made.</p>  |
| #24 DOL OIG   | a. We agree with the minimum disclosures for the central banking system.   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | b. See answer to Q12.a.  |
| #25 Administrative Office of the US Courts  | No response  |
| #26 GSA CFO<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b>       | a. Per the notes already provided above, GSA see no justification for applying the rules differently just because the Federal Reserve System is the only entity of its kind, especially given the magnitude of its banking operations and the need for transparency. GSA agrees if the minimum disclosures for the central banking system are in addition to the disclosures required of other reporting entities.   |
| #26 GSA CFO   | b. No comments.  |
| #27 GWSCPA FISC   | The FISC agrees with the proposed standards included in paragraph 77.  |
| #28 Joyce Dillard<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b> | Central Banking system aka Federal Reserve System FRS is too critical a factor in government, not to include it in consolidation.<br><br>Since the system is regional, all regions of the FRS should be disclosed. The aspect of Cash holdings need to be addressed, as this entity prints its own money. Uncirculated cash needs to be included as should any physical assets such as gold.<br><br>The offsetting entity needs full disclosure under Comments or Footnotes.<br><br>The Public needs to grasp the liability aspect of the Federal Reserve System and its investments in foreign and/or offshore banking and the terms of any relationship. |
| #28 Joyce Dillard<br><br>Staff notes there are active projects in the risk assumed area and PPP.              | All risk should be disclosed.<br><br>Accountability has been lacking and that aspect of Representation needs to be addressed.<br><br>Space is being privatized. With that, the industry should be analyzed for inclusion. Future assets in the area of mining inventories need inclusion in this process as well as the risks and liabilities.   |
| #28 Joyce Dillard<br><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>            | The Judicial Branch should never be excluded, yet it does not operate in disclosure.   |
| #29 DOL CFO   | No Comment   |
| #30 Intelligence  | a. We disagree; the central banking system should be required to report disclosures that provide for complete disclosure   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>Community</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p> | <p>of their activities. Due to the unique nature of the central banking system, maybe additional guidance should be issued by the board to address specifically all of the central banking system’s unique accounting and operations. The statement does not provide sufficient minimum disclosure requirements for the central banking system and the board should consider providing the additional disclosure requirements referenced below.</p> <ul style="list-style-type: none"> <li>• Paragraph 77, item b should include an assessment of meeting the objectives of federal and monetary policy. Item b requires the Federal Reserve System to disclose significant roles and responsibilities and how they relate to federal objectives, which is important, but incomplete. Financial reports are useful when they possess comparability and relevance to the user. As a result, it is important that not only the objectives are linked to the roles and responsibilities, but that an assessment is provided of those objectives (similar to a balanced scorecard).</li> <li>• Paragraph 77, item c should include actions such as open market operations, reserve requirements, adjustments to the fed funds rate, specific financial services provided to the federal government, and investments in specific financial instruments used by the Federal Reserve System (e.g. swaps, asset backed securities, collateralized debt and mortgage obligations, interest rate derivatives, commodities, real assets, etc.) in which significant positions are taken.</li> <li>• Paragraph 77, item d should also include significant transactions and balances within the fiscal period that would impact the decision making of stakeholders and GPFFR users.</li> <li>• The Federal Reserve System should disclose transactions and relationships with foreign governments and financial institutions as well as significant holdings (currencies, debt, treasury securities, ownership interests, etc.) that could be materially useful to a user of the GPFFR.</li> </ul> <p>The current minimum disclosures do not encompass these disclosures requirements, which should be articulated to a greater degree in order to ensure that the government-wide GPFFR is reliable and the information presented is verifiable, and completely and faithfully represents what it purports to represent. The Federal Reserve System is a unique organization; therefore, the board should emphasize transparency in Federal Reserve System disclosures. The board should also consider developing a single statement devoted to the central banking system.</p> <p>The statement should require similar disclosures to the Federal Reserve System such as the roles and responsibilities of the organization, how it is accomplishing specified objectives and an assessment of meeting those objectives, nature of the research, development, or venture, sources and uses of funds, significant transactions, and governance structure. The government-wide GPFFR should provide transparency and accountability for the activities financed by taxpayers and non-exchange revenue as well as organizations that have a significant impact on policy making. In turn, this will provide users and stakeholders with sufficient information for decision making purposes.</p> |
| <p>#30 Intelligence Community</p> <p><b><u>7. Other Organizations- April 2014</u></b></p>                            | <p>b. We believe the board should consider providing minimum disclosures for the following organizations:</p> <ul style="list-style-type: none"> <li>• Federally Funded Research and Development Centers;</li> <li>• Venture capital projects; and</li> <li>• Government sponsored enterprises such as the Federal Agricultural Mortgage Corporation, Federal National</li> </ul>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|  | Mortgage Corporation, and Federal Home Loan Mortgage Corporation due to their impact on political, monetary, and fiscal policy objectives, and the federal government.  |
| #31 AGA FMSB<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b>     | a. The FMSB agrees with the minimum disclosures for the central banking system. The importance of the central banking system warrants minimum disclosures. However we are puzzled by the FASAB's decision to not provide a definitive determination as to whether the FRS should or should not be considered within the federal entity and at what level.   |
| #31 AGA FMSB   | b. No.  |
| #32 NSB  | No Response   |
| #33 Treasury Bureau of Fiscal Service (FMS)  | a. Agree – The minimum disclosure requirements appropriately identify what, why, and the financial implications of the work performed within the federal banking system on behalf of the Federal government<br>b. No – I am not aware of other non-Federal entities that should receive unique consideration related to this exposure draft   |
| #34 NRC CFO<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b>      | a. Disagree as the Federal Reserve is independent. Disclosure if required should only include items a, e, and f. Disclosure information contained in items b, c, and d would be included in the Federal Reserve's reports.  |
| #34 NRC CFO<br><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>                 | b. Yes, if the Judicial and Legislative branches are not considered consolidating entities, then there should be disclosures pertaining to these entities and the fact that they receive appropriations funded from Federal tax revenue.  |
| #35 FAF  | No Response   |
| #36 Treasury CFO<br><b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b> | a. Agree. We generally agree with the ED's minimum disclosures for the central banking system, with the exception of paragraph 77(c). Based on the inclusion principles outlined in paragraph 21, we do not believe the FRB would meet the criteria for being included as a consolidation or disclosure entity. Therefore, we agree that separate guidelines, such as those presented in paragraph 77, are needed to ensure that appropriate disclosure is given to this related party entity which is too misleading to exclude.<br><br>We recommend removing the phrase "and changes in those actions" in paragraph 77(c). Treasury's agency financial report disclosures currently provide a general description of the FRB's monetary policy and how this policy is executed. |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | We disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. Not only is would this discussion be complex but is subject to significant change each year. Furthermore, audit assurance of this information could be difficult and costly to obtain. Reference to the availability of the FRB’s annual report, as required by paragraph 77(f), would provide a reader with more in-depth information on this subject rather than in Treasury’s agency financial report. |
| #36 Treasury CFO<br><b>7. Other Organizations- April 2014</b> | b. Yes. Some organizations falling outside of the inclusion principles may be viewed by the public as being part of the federal government such as Medicaid and state unemployment programs. Perhaps some level of disclosure explaining the federal government’s limited role with regards to organizations such as these would be useful to readers of GPFFRs.   |
| #37 Smithsonian Institute CFO                                 | No response  |
| #38 FDIC  | No response  |
| #39 US RRB  | No Comment   |

| <b>QUESTION 7</b>                       |   |
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|   | <p><b>a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.</b></p> <p><b>b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.</b></p> <p><b>c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.</b></p> <p><b>d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.</b></p> <p><b>e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.</b></p> |
| #1 PBGC -Joint Response CFO & OIG       | No response   |
| # 2 Holocaust Memorial Museum- CFO      | No response   |
| #3 Office of Personnel Management - CFO | a. Agree with the related parties definition and requirements.  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | <p>b. Agree with the list of the types of organizations that generally would be considered related parties.</p> <p>c. N/A</p> <p>d. Agree with the list of exclusions.</p> <p>e. N/A</p>   |
| #4 Postal Service- OIG  | No response  |
| #5 SIPC   | No response  |
| #6 DOC CFO  | <p>a. The Department of Commerce agrees with the related parties definition and requirements. They ensure the inclusion of material and significant items.</p> <p>b. The Department of Commerce agrees with the list of organization types, which would generally be considered related parties. However, each reporting component would need to exercise sound judgment when applying this standard to decide which organizations would be considered a third party.</p> <p>c. The Department of Commerce is unaware of any additional organizations that should be considered third parties.</p> <p>d. The Department of Commerce agrees with the list of exclusions. This list appears comprehensive and easy to understand.</p> <p>e. The Department of Commerce is unaware of any additional exclusions that should be considered.</p>  |
| #7 SSA CFO  | <p>a. We agree with the definition and requirements regarding the disclosure of significant related party relationships. We agree that related party concepts applicable to the Federal domain are necessary.</p> <p>b. We agree with the list of the types of organizations that FASAB generally considers related parties. If the organization does not meet the inclusion principles, then the related parties “significant influence” test may apply.</p> <p>c. We are not aware of additional organizations that FASAB should consider as related parties with regards to this draft Standard.</p> <p>d. We agree with the list of exclusions.</p> <p>e. We are not aware of additional exclusions FASAB should consider.</p>   |
| <p>#8 NSF CFO</p> <p><b>3. Related Parties- April 2014</b></p> <p>(**Board will approve final language at the June Meeting)</p> | <p>a. In paragraph 80, FASAB indicates that significant influence may be exercised by representation on the board of directors or equivalent governing body. The National Science Foundation, by law, must consist of a Director and National Science Board (NSB). The persons nominated for appointment as members of the board are eminent in the fields of the basic sciences, medical science, engineering, agriculture, education, or public affairs and are appointed by the US President. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the Board identifies issues that are critical to NSF's future, approves NSF's strategic budget, and approves new major programs and awards. The Board also serves as an independent body of advisors to both the President and the Congress on policy matters and education related to science and engineering.</p> <p>Several NSB members may be affiliated with entities to which NSF issues grants or contracts. Most often these board members are professors or hold honorary positions at the awardee institution. NSF is concerned that the related party definition as currently written will be applied to organizations with which NSB members are affiliated. NSF does not</p> |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|  | <p>support this view and does not see any indication in the related party illustration in Appendix C, page 74, Andromeda Prime Power Systems (related Part- GSE), this is FASAB’s intent. Indicating a related party relationship between the federal government and organizations that receive grants such as not-for-profit entities and collegial institutions would grossly mislead the public.</p> <p>In order to clearly denote that NSB members as individuals, or the entities they are affiliated with, are not in related party relationships with NSF; NSF requests that FASAB add additional clarifying language. Suggestions for this clarification are indicated below:</p> <p>Paragraph 80 – The current reference to policy decisions should be narrowed to distinguish between “operational” (day-to-day, transactional level) and “strategic” (high level strategy and direction) policy decisions. Strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. In the case of the NSB, the Board’s strategic decisions do not directly influence the day to day operational and financial transactions of the Foundation (individual awards to grantees, etc.). NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: <b>“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.”</b></p> <p>Paragraph 84 – Although Paragraph 84 c) indicates that “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” should be excluded from the related party definition; NSF suggests that FASAB explicitly add <b>“Including Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not automatically result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84 b) as indicated below:<br/>         “Organizations with which the federal government transacts a significant volume of business that <b>may or may not</b> result in economic dependence such as....”</p> <p>b. NO NSF COMMENT</p> <p>c. NO NSF COMMENT</p> <p>d. As noted in response Q7 a above, NSF suggests that FASAB explicitly add in 84c <b>“Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84 b) as indicated below:</p> |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | <p>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as...”</p> <p>e. As noted in response Q7 d above, NSF suggests that FASAB explicitly add “<b>presidentially appointed agency board members</b>” to the list of exclusions.</p>  |
| <p># 9 KPMG</p> <p><b>3. Related Parties- April 2014</b></p> | <p>Related Parties</p> <p>i. We believe that related party disclosures would only be evaluated for an organization that was considered by the reporting entity to be subject to its influence to such an extent that the reporting entity evaluated it under this standard; however the organization failed the control criteria but was considered misleading to exclude. This is based on our observation that the factors in paragraphs 79 and 80 closely parallel those in paragraph 30. If there is an expectation of an evaluation of a separate population, that expectation should be specifically stated and perhaps a separate standard should be considered.</p> <p>ii. The statement should contrast the disclosure requirements of a related party to those of a disclosure organization. It appears that a related party is similar to a disclosure organization but with limited disclosure requirements.</p> <p>Paragraph 83b seems to suggest that organizations such as the United Nations, World Bank, IMF, etc. would be considered related parties of the federal government and should therefore be subject to disclosure requirements. Is this the Board’s intention?</p> <p>We recommend that the Board consider developing a separate standard for Related Parties instead of embedding those disclosures within the Reporting Entity standard. If a reporting entity currently includes related party disclosures in its financial statements, the reporting entity would be using the guidance provided in the FASB standards as FASAB does not currently contain a standard addressing related party reporting. Once the Reporting Entity statement is issued, it may be difficult for a federal reporting entity to know and understand that embedded within the statement is guidance for related party identification and reporting. We believe that this statement can refer to related parties however; a separate standard addressing all aspects of related parties may be beneficial. (Appendix 4 1V)</p> |
| #10 Treasury OIG   | No response   |
| #11 HUD CFO  | <p>a. HUD agrees with the related parties definition and requirements. In addition to organizations for which the Congress and/or the President are accountable, 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.</p> <p>b. HUD agrees with the list of the types of organizations that generally would be considered related parties.</p> <p>c. HUD is not aware of additional organizations that would be considered related parties.</p> <p>d. HUD agrees with the list of exclusions.</p> <p>e. HUD is not aware of any additional exclusions that should be considered.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #12 TVA CFO   | No response  |
| #13 NASA CFO  | <p>a. NASA agrees with the definitions and requirements for related parties.</p> <p>b. NASA agrees with the list of the types of organizations that would be considered related parties.</p> <p>c. NASA does not recommend additional types of organization that should be considered related parties.</p> <p>d. NASA agrees with the list of types of organization that would not be considered related parties.</p> <p>e. NASA agrees that the definition for related parties is consistent with generally accepted accounting principles guidance. The list of organizations considered to be related parties is consistent with the definition.</p>  |
| <p>#14 Department of Homeland Security CFO</p> <p><b>3. Related Parties- April 2014</b></p> | <p>a. We disagree with definitions and requirements for related parties that require professional judgment in calculating significance and whether it would be misleading to exclude information.</p> <p>b. Disagree, the three inclusion principles would cover an related parties when the government holds a majority interest or controls an organization with risk of loss or expectation of benefits.</p> <p>d. The inclusion principals would capture all objectively measurable related parties requiring disclosure.</p>  |
| #14 Department of Homeland Security CFO   | <p>c. There are no additional organizations that should be considered as related parties.</p> <p>e.No, there are no additional exclusions that should be considered.</p>   |
| #15 Nuclear Regulatory Commission OIG   | <p>a. I agree with the definition and requirements for related parties. This standard is similar to GAAP related party disclosure requirements. By requiring disclosure of related party relationships, GPFFR users are provided with additional information that may be material and relevant to sound financial decision making.</p> <p>b. I agree with the list provided, but I think the list could have provided more examples so that the preparers would have a better understanding of the definition of related parties. The list for what is not a related party is longer that the list of what is a related party.</p> <p>c. I think this would be dependent on the degree of influence rather than on a type of entity.</p> <p>d. I agree with list. These are examples where influence would not be significant.</p> <p>e. No additional exclusions.</p> |
| # 16 Federal Reserve System   | No response  |
| #17 TVA OIG   | No Response  |
| #18 DOD CFO   | <p>a. Agree. The definition and requirements of related parties are consistent with GAAP terminology and disclosures.</p> <p>b. Agree. The list of organizations appears to define the vast majority of potential related parties.</p> <p>c. No additional organizations are noted, at this time.</p> <p>d. Agree. The list of exclusions appears appropriate.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|   | e. No additional exclusions are noted, at this time.  |
| #19 Commodity Credit Corporation CFO  | a. Agree. Definition provided in para 78-83 are clear and concise.  |
| #19 Commodity Credit Corporation CFO<br><b>3. Related Parties- April 2014</b> | b. Para 83 is not clear “use of the term generally” allows for substantive judgment by the reporting entity.  |
| #19 Commodity Credit Corporation CFO  | c. None at this time<br>d. Agree. Definitions in Para 84 are clear.<br>e. None at this time.  |
| #20 Joseph H. Marren  | No response   |
| #21 HUD OIG   | We support the Board’s position on questions 1 – 4 and 6-11   |
| #22 HHS OIG   | a. The definitions and requirements in paragraphs 78-87 adequately describe related parties. They are logical and define how related parties should be disclosed. The definitions and requirements follow what one would expect to find in normal Federal financial reporting.<br>b. The list in paragraph 93 appropriately defines the types of organizations that would generally be considered related parties. The list follows what one would expect to find in normal Federal financial reporting.<br>c. Not aware of additional organizations that should be considered related parties.<br>d. The list of exclusion in Paragraph 84 appears complete and normal for what one might expect in Federal financial reporting.<br>e. Not aware of additional exclusions that should be reported. |
| #23 SEC CFO   | a. Agree, except for question in Q7c below<br>b. Agree, except for question in Q7c below<br>d. Agree. The individuals and organizations listed should not be considered related parties.<br>e. The SEC is not aware of any significant omissions from the list.   |
| #23 SEC CFO <b>3. Related Parties- April 2014</b>                             | c. Yes. It would be helpful if this section could address factors to consider regarding whether non-federal organizations receiving federal financial assistance (which are excluded from the inclusion principles in paragraph 22) might be considered related parties.  |
| #24 DOL OIG   | a. We agree with the related parties definition and requirements.<br>b. We agree with the list of the types of organizations.   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>c. We identified no additional related organizations.</p> <p>d. We agree with the list of exclusions.</p> <p>e. We identified no additional exclusions.</p>   |
| #25 Administrative Office of the US Courts               | No response  |
| #26 GSA CFO  | <p>a. GSA agrees that the definition as stated is sufficiently comprehensive and justifiable.</p> <p>b. GSA agree that the list is sufficient, so long as it is a representative sample list and not all inclusive.</p> <p>c. No comments.</p>   |
| #26 GSA CFO<br><b>3. Related Parties- April 2014</b>     | <p>d. GSA does not agree that it is necessary to provide exclusions for Part 84, Sections' (d), (e), and (f) especially for special interest groups. The guidance indicates that significant influence is the power to participate in the policy decisions of an entity, but not control those policies. The guidance goes on to state that regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Most importantly, the guidance states that judgment is required in assessing the impact of regulation and economic dependence on a relationship. It is believed that there may indeed be instances where foreign governments and special interest groups meet the definitions as provided herein in certain relationships. The power to disclose such related party information should not be taken from the disclosing entity under any general exclusion principle.</p> <p>e. See comment above.</p>  |
| #27 GWSCPA FISC<br><b>3. Related Parties- April 2014</b> | <p>The FISC generally agrees with the definition of related parties found in paragraphs 78-87. However, we suggest that additional guidance be provided to address whether a related party exists when a federal board or commission (such as many of the entities named under the Accountability of Tax Dollars Act of 2002) has members of its board of directors or commissioners who maintain employment outside of the Federal government, and then the federal board or commission issues a contract or grant with the company, state, university, or charitable organization that is represented by the board member or commissioner. Given the guidance in the ED, the member of the board or commissioner has significant influence since the individual has the “power to participate in policy decisions of an entity” (paragraph 80). However, the board member or commissioner likely doesn’t have the ability to direct a specific grant or contract to create a less-than-arms-length transaction between the federal board or commission and the individual’s company, state, university, or charitable organization.</p> <p>Further, the definition of a related party appears to differ from the FASB’s definition of related parties. For example, the ED differs from FASB literature in the discussions of arms-length transactions, and how arms-length transactions with related parties impact the reporting of those relationships in the entity’s GPFFR. If differences exist in the two definitions, then the consolidation of reporting entities with FASB-based information may be complicated if two definitions of related parties are applied.</p> |
| #28 Joyce Dillard  | You state:   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|   | <p>A83. Because of the extent of the federal government’s relationships – whether already established or implied – “related parties” concepts may result in numerous relationships requiring disclosure.</p> <p>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.</p> <p>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.</p> <p>The related parties 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.</p> <p>As related parties become complex, so does disclosure. We, the public, need to understand these relationships, financially and operatively.</p>   |
| #29 DOL CFO   | No Comment  |
| #30 Intelligence Community  | <p>a. We believe the definition and requirements set forth in sections 79 and 87, respectively, provide an adequate understanding of what constitutes a related party and the appropriate information for the reader to understand the nature and extent of the relationship.</p> <p>The definitions and requirements provided for related parties provide sufficient guidance that enable preparers and auditors of financial reports to assess an organization’s relationship to the federal government and whether it should be included and disclosed in the GPFFR.</p> <p>b. We agree that the list of the types of organizations that generally would be considered related parties, while limited, is adequate. Determining whether a related party exists requires professional judgment and the application of a number of tests/principles to reach the appropriate conclusions, which cannot necessarily be anticipated and/or defined by a particular type of organization.</p> <p>d. We agree with the list of exclusions because it is either explicit or implicit that the transactions do not meet the principles of inclusion or do not meet the related party definition.</p> <p>e. We do not believe there are additional exclusions needed.</p> |
| #30 Intelligence Community<br><b>3. Related Parties- April 2014</b> | <p>c. We believe the board should also consider the influence of those listed below when considering related parties:</p> <ul style="list-style-type: none"> <li>• Free trade agreements</li> <li>• Customs unions</li> <li>• Common markets</li> <li>• United Nations</li> <li>• Foreign financial institutions</li> </ul> <p>Each of these organizations could possess significant influence due to their relationships with the federal government, its organizations, and non-profit or private sector organizations that impact the federal government.</p>  |
| #31 AGA FMSB<br><b>3. Related</b>                                   | <p>a. The FMSB has some concerns about the use of the term related parties in the exposure draft. Under GASB, state and local governments are required to disclose certain related party transactions and to recognize the transaction for its economic form rather than its legal form. Thus related party issues are linked to transactions. The FASAB approach is</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b>Parties- April 2014</b>   | to call the entity a related party if one party has the ability to influence financial and operating decisions. It is not linked to any particular transaction. Thus the use of the term by FASAB seems inconsistent with the use of the term in other professional pronouncements and we urge FASAB to utilize another term.  |
| #31 AGA FMSB   | <p>b. The FMSB agrees with the list.</p> <p>c. The FMSB has no additions to suggest at this time.</p> <p>d. The FMSB has no comment.</p> <p>e. The FMSB has no comment.</p>  |
| <p>#32 NSB</p> <p><b>3. Related Parties- April 2014</b></p> <p><b>(**Board will approve final language at June Meeting.)</b></p> | <p>a. The National Science Board (NSB) fully supports the comments made by the National Science Foundation (NSF) on the subject of related parties. The NSB submits comments to highlight some specific points.</p> <p>The federal government has numerous relationships with private sector and non-profit entities. NSB agrees with FASAB that it is appropriate to focus disclosure requirements only on those relationships of “such significance to the reporting entity that it would be misleading to exclude information about them.” Paragraph A83, Appendix A, and paragraph 78.</p> <p>In paragraph 80, FASAB indicates that ‘significant influence’ may be exercised by representation on the board of directors or equivalent governing body of an entity. The NSB recommends that FASAB clarify the definition of ‘significant influence’ used in paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and the institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. The operation of the National Science Board is illustrative.</p> <p>The National Science Foundation by law consists of the National Science Board and a Director. 42 U.S.C. § 1861. There are 24 members of the NSB; they are appointed by the President. Board members are eminent in the fields of basic science, medical science, social science, engineering, agriculture, education, research management and public affairs. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the NSB acts both strategically, in that it identifies issues that are critical to NSF’s future and approves NSF’s strategic budget directions, and in certain instances it acts operationally, by approving major new programs plus specified kinds of large grants and awards. There are typically fewer than 15 NSB-approved awards per year.</p> <p>NSB members may be affiliated with institutions such as universities where researchers are eligible to receive grants and awards from NSF. Individual NSF grant awards are made pursuant to a peer-review based process within NSF and the vast majority are not reviewed by the NSB. The NSB only reviews proposed awards that are larger than a designated threshold or meet other specific criteria. Federal conflict of interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the designated agency Ethics Official. Individual NSB members are not involved in the review or approval of any proposed grant awards to their affiliated institutions.</p> |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|  | <p>NSB is concerned that the reference in paragraph 80 that significant interest lies in the power to participate in policy decisions may be interpreted too broadly in circumstances where agencies are headed by collegial bodies. This definition should be narrowed to distinguish between ‘strategic’ (high-level strategy and future direction) policy decisions, and ‘operational’ policy decisions, that is, day-to-day or transactional level policies. Strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of a related party relationship. The NSB’s strategic policy decisions do not have a direct influence on the day-to-day or financial transactions of NSF. With regard to operational policy decisions, NSB members are regulated by government-wide conflict of interest rules designed to prevent federal employees from participating in matters where they have a conflict of interest or there is an impartiality concern.</p> <p>The NSB fully supports FASAB’s underlying goal of transparency in an agency’s financial statements. As a matter of course, NSF and NSB include information in the NSF Financial Statements about the NSB’s role in the Foundation and the total amount of grant awards that NSF made to NSB member-affiliated institutions in the reporting year. The yearly award totals from NSF to each member-affiliated institution are provided. In years when the NSB has approved a grant to a Board member-affiliated institution, that amount is provided as well. However, to assume a related party relationship between an NSB member and NSF, or between the NSB member’s affiliated institution and NSF, would itself be misleading to the public. It could imply the existence of the factors in paragraph 86, such as the ability to cause the agency to enter in transactions on different terms or conditions that those available to unrelated parties (paragraph 86.c). As explained above, this is not the case with the NSB.</p> <p>Thus, the NSB recommends clarification of the definition of ‘significant influence’ paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. This appears to be the intent of paragraph 84.c, but for avoidance of doubt NSB and NSF recommend the changes below.</p> <p>Paragraph 80 – The current reference to policy decisions should be narrowed to distinguish between “operational” (day-to-day, transactional level) and “strategic” (high level strategy and direction) policy decisions. As noted above, strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: <b>“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.”</b></p> <p>Paragraph 84 – Paragraph 84.c indicates that “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” should be excluded from the related party definition. NSF suggests that FASAB explicitly add <b>“Including Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not automatically result in a related party relationship between the</b></p> |
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Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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|   | <p><b>federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84.b as indicated below:<br/> <b>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”</b></p> <p>b. NO NSB COMMENT</p> <p>c. NO NSB COMMENT</p> <p>d. As noted above, NSB suggests that FASAB explicitly add in 84.c <b>“Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>NSB requests that FASAB add the term <b>“that may or may not”</b> to paragraph 84b as indicated below:<br/> <b>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”</b></p> <p>e. As noted in response Q.7.d above, NSB suggests that FASAB explicitly add <b>“presidentially appointed agency board members”</b> to the list of exclusions.</p> |
| #33 Treasury Bureau of Fiscal Service (FMS) | <p>a. Agree – significant control should be the overriding factor for identifying a related party</p> <p>b. Agree – the ability to manage or control activities is the driving factor for these two conditions</p> <p>c. No</p> <p>d. Yes – the exclusions do not represent factors related to control; (b) relates to concentrations of risk, (c) relates to family members but neither of these exemplifies control</p> <p>e. No</p>   |
| #34 NRC CFO                                 | <p>a. Agree.</p> <p>b. Agree.</p> <p>d. Agree; educational institutions, state and local governments, and foreign governments should be excluded.</p> <p>e. No.</p>  |
| #34 NRC CFO 3. Related Parties- April 2014  | <p>c. Disclosures should also include business entities and key individuals residing outside the United States for the purposes of conducting international business.</p>  |
| #35 FAF                                     | No Response  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| #36 Treasury CFO<br><b>3. Related Parties- April 2014</b> | <p>a. Agree. While we generally agree with the related party definition (paragraph 12) and requirements (paragraphs 78-87), the standard does not appear to provide a clear distinction between the characteristics of a related party and those of a disclosure organization meeting the "misleading to exclude" inclusion principle. More specifically, it could be interpreted that a disclosure entity meeting the "misleading to exclude" inclusion principle is a related party and therefore could be disclosed under the requirements of either a disclosure entity or related party. Thus, the section "misleading to exclude" should not be placed as a "catch-all" for the inclusion principle (paragraphs 35 and 36), and then again in paragraphs 78-79 in referring to related parties. Instead, entities not meeting the "Budget", "Ownership", and "Control" inclusion criteria should then be considered for disclosure as a "related party" if too misleading to exclude. Also see related comments and recommendations in our response to Q1(c) and Addendum A.</p> <p>b. Agree with one minor exception. The federal government is party to certain multi-lateral development banks where it does not have significant influence. Paragraph 83(b) should therefore be amended to read "(for example, certain multi-lateral development banks)."</p> |
| #36 Treasury CFO  | <p>c. No. We did not identify any missing types of organizations.</p> <p>d. No. We did not identify any additional exclusion that should be considered.</p>   |
| #37 Smithsonian Institute CFO                             | No response   |
| #38 FDIC  | No response   |
| #39 US RRB  | <p>a. Agree</p> <p>b. Agree</p> <p>c. No Comment</p> <p>d. Agree</p> <p>e. No comment</p>   |

| <b>QUESTION 8</b>   |   |
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| <b>Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.</b> |   |
| #1 PBGC -Joint Response CFO & OIG   | No response                                   |
| # 2 Holocaust Memorial Museum- CFO  | No response                                   |
| #3 Office of Personnel Management - CFO   | Agree with the conforming changes to SFFAC 2. |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| #4 Postal Service- OIG  | No response  |
| #5 SIPC   | No response  |
| #6 DOC CFO  | The Department of Commerce agrees with the conforming changes to SFFAC. While SFFAC 2 will remain the overarching concept for the GPFFR, this standard will refine the GPFFR to make the information more complete and result in better reporting for the government-wide GPFFR and the component GPFFRs. Not having these changes would result in overlapping guidance with conflicting criteria.   |
| #7 SSA CFO  | We agree with the conforming changes to SFFAC 2 as the language concerning the criteria for determining what organizations are required to be included in a Federal reporting entity's GPFFR will now be included in this Standard.  |
| #8 NSF CFO  | NO NSF COMMENT   |
| # 9 KPMG<br><b>4. SFFAC 2 Amendments- April 2014</b>  | a. As a result of the number of changes that the ED requires for SFFAC 2, we recommend that the Board consider the need to re-evaluate SFFAC 2 in totality and consider a complete revision to SFFAC 2 outside of the required changes resulting from the ED.  |
| # 9 KPMG<br><br><b>Open- Editorial, structural, or clarified in BfC</b><br><br><b>Staff incorporated suggestion c. Based on PH testimony and other research, staff did not believe the others are necessary to clarify the standard. For example, staff notes the board moved away from the notion of 'financial accountability' to accountability with</b> | <p>Comments related to Amendments to SFFAC 2, Entity and Display (Appendix 4 VII)</p> <p>b. Paragraph 91 – The new paragraph (6a) to be included within SFFAC 2 uses the term “accountability.” We believe this should state “financial accountability” to agree with paragraph 38 of SFFAC 2, which uses the term “financial accountability.” This suggestion may require additional edits to SFFAC 2 if there is inconsistent use of “accountability” versus “financial accountability.”</p> <p>c. Paragraph 93 – We provide the following suggested revision to the paragraph 10 replacement to SFFAC 2:<br/>Ensure information at each reporting entity includes information about all relevant organizations to support financial accountability by identifying organizations that are in the budget or controlled with risk of loss or expectation of benefit.</p> <p>d. Paragraph 94 – We suggest eliminating part of the last sentence to the revised paragraph 38 to SFFAS 2, which includes the concept of misleading to exclude.</p> <p>e. Paragraphs 99-100 – We do not believe that the information related to distinguishing between consolidated and disclosure organizations is necessary to be included in a concept statement.</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b><i>the proposal at the October 2009 meeting.</i></b>      |  |
| #10 Treasury OIG<br><b>4. SFFAC 2 Amendments- April 2014</b> | If changes are made to the Exposure Draft to implement our response to question 5 above, the rescission of paragraph 78 of SFFAC 2, proposed in paragraph 101 of this Exposure Draft, would need to be revisited. We have no comment on other conforming changes to SFFAC 2.   |
| #11 HUD CFO  | HUD agrees with the conforming changes to SFFAC 2. 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.<br><br>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. |
| #12 TVA CFO  | No response  |
| #13 NASA CFO<br><b>2. Misleading to Exclude- Dec 2013</b>    | NASA agrees with the conforming changes, with the exception of item noted in our previous responses: Paragraph 94: The Statement should provide clarity on the criteria for the term "misleading".   |
| #14 Department of Homeland Security CFO                      | Agree, inclusion of organizations that the federal government owns, controls, with risk of loss or expectation of benefits, fits within the objective of accountability for financial reporting purposes.  |
| #15 Nuclear Regulatory Commission OIG                        | I agree with the conforming changes. The changes appear to be necessary to make SFFAC 2 and SFFAC 34 language agree.   |
| # 16 Federal Reserve System                                  | No response  |
| #17 TVA OIG  | No Response  |
| #18 DOD CFO  | Agree. The changes made to SFFAC 2 are consistent with the Exposure Draft guidance.  |
| #19 Commodity Credit Corporation CFO                         | Agree. The SFFAC 2 should reflect the same reporting decision criteria outline in the standard.  |
| #20 Joseph H. Marren   | No response  |
| #21 HUD OIG  | We support the Board's position on questions 1 – 4 and 6-11  |
| #22 HHS OIG  | The conforming changes should be made to SFFAC 2 since what is required for inclusion in an entities' GPFFR will now be in a Statement of Federal Financial Accounting Standards (SFFAS). The SFFAS' have a higher priority than the concept statements in the Federal accounting hierarchy.   |
| #23 SEC CFO  | Disagree. The proposed standard would rescind paragraph 42 of SFFAC 2 and replace it with what the SEC believes  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <p><b><u>1. In the Budget – Dec 2013</u></b><br/>and<br/><b><u>4. Term for Disclosure Organization-- Dec 2013</u></b></p> | <p>to be a narrower definition of a non-federal entity. Paragraph 42 of SFFAC 2 states that: “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.” However, paragraphs 22 and 39 and footnote 11 of the ED refer to federal financial assistance as defined by the Single Audit Act; this implies that organizations must be subject to the Single Audit Act in order to qualify for the exemption currently in paragraph 42 of SFFAC 2.</p> <p>Also, the SEC disagrees with inconsistent use of the terms “organization” and “entity.” For example, in this ED, the terms “consolidation entity” and “disclosure organization” are used. However, in paragraph 100 of the ED, proposed new paragraph 53A refers to the federal governments as an “organization” and proposed new paragraph 53B uses the term “disclosure entity.” (This was also noted in SEC response to Q1b and Q2a.)</p> <p>SEC Recommendation:</p> <p>The SEC recommends that paragraphs 22 and 39 be deleted and that being “in the budget” should be included only a one indicator of control. The passage referring to non-federal entities listed in the budget should retain the same language as paragraph 42 of SFFAC 2.</p> <p>Also, to address inconsistent use of the terms “entity” and “organization,” the term “organization” should be used consistently throughout the document, including conforming changes to SFFAC 2, for everything except for references to a primary federal reporting entity (government-wide or component level) that would be reporting on an organization.</p> |
| #24 DOL OIG   | We agree with the conforming changes.  |
| #25 Administrative Office of the US Courts  | No response  |
| #26 GSA CFO   | It is agreed that conforming changes to the Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity’s GPFFR from the concepts statement are necessary for the reasons stated.   |
| #27 GWSCPA FISC   | The FISC agrees with the conforming changes to SFFAC 2.  |
| #28 Joyce Dillard<br><b><u>7. Other Organizations – April 2014</u></b>  | <p>You state:</p> <p>89. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.</p> <p style="padding-left: 40px;">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</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | <p>should be basic information, required supplementary information (RSI), or other accompanying information (OAI).</p> <p>We are not clear if all entities involved would be Reporting Entities. They should be. The Federal Register is a notification to the public on Notices, Proposed Rules and Final Rules. One assumes that this is notification of how the government works with an opportunity for the public to comment. Without the full encompassing of the process, government becomes hidden or a “Black Government.” “Black Government” definitely fits into the misleading category.</p>                                       |
| #29 DOL CFO  | No Comment   |
| #30 Intelligence Community   | <p>We agree the conforming changes to SFFAC 2 relating to rescissions and additions based on the explanations provided in paragraphs 88-101. Rescissions appear to be justified based on the explanations provided in the Exposure Draft. There are two newly added paragraphs, the first of which relates the financial reporting objective of accountability to that of the reporting entity, and the second of which (containing subparagraphs 53A-53E) provides a more detailed distinction between consolidation entities and disclosure organizations.</p> <p>The remaining changes described are either amendments or replacements.</p> |
| #30 Intelligence Community<br><b>4. SFFAC 2 Amendments- April 2014</b> | <p>The document does not specify what was replaced and/or why it was replaced. We would recommend that the document specify this information to provide the reader with FASAB’s rationale for the proposed change.</p> <p>FASAB should consider providing more specific guidance related to the material differences before rescinding paragraph 78.</p>   |
| #31 AGA FMSB   | The FMSB agrees with the conforming changes to SFFAC 2.  |
| #32 NSB  | No response  |
| #33 Treasury Bureau of Fiscal Service (FMS)                            | Agree – the changes give proper consideration to the effects of implementing this exposure draft   |
| #34 NRC CFO  | Agree.   |
| #35 FAF  | No Response  |
| #36 Treasury CFO<br><b>4. SFFAC 2 Amendments- April 2014</b>           | <p>Agree. We generally agree that conforming changes to SFFAC 2 are appropriate and necessary since, without these changes, there is a risk that federal agencies will erroneously follow the original guidance in the SFFAC and miss the guidance in the new standard. However, due to the significant number of changes that are proposed to SFFAC 2, the Board should give consideration to superseding the provisions of SFFAC 2 in their entirety with this ED, or alternatively completely revising SFFAC 2.</p>   |
| #37 Smithsonian Institute CFO  | No response  |
| #38 FDIC   | No response  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #39 US RRB | Agree with having the changes in one place in the accounting guidance. |
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| <b>QUESTION 9</b>   |   |
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| <b>Do you agree or disagree with this effective date? Please provide the rationale for your answer.</b> |   |
| #1 PBGC -Joint Response CFO & OIG   | No response   |
| # 2 Holocaust Memorial Museum- CFO  | No response   |
| #3 Office of Personnel Management - CFO   | Agree with this effective date.   |
| #4 Postal Service- OIG  | No response   |
| #5 SIPC   | No response   |
| #6 DOC CFO  | The Department of Commerce agrees with the effective date being for periods after September 30, 2016. We believe it provides ample time for agencies to implement, including the preparation of data systems and the identification of consolidation entities and disclosure organizations.   |
| #7 SSA CFO  | We agree with the implementation date as it appears to provide preparers and users adequate time to review and implement applicable changes. However, organizations significantly affected by this Standard would be better equipped to respond to this question.   |
| #8 NSF CFO  | NO NSF COMMENT  |
| # 9 KPMG<br><b>5. Effective Date- April 2014</b>  | We do not agree with allowing for early implementation, because it would lead to inconsistent reporting across federal reporting entities. We suggest stating that early implementation is not permitted.   |
| #10 Treasury OIG  | No Response   |
| #11 HUD CFO   | HUD agrees with this effective date. It is the beginning of federal government fiscal year.   |
| #12 TVA CFO   | No response   |
| #13 NASA CFO  | NASA agrees with this effective date as long as technical guidance on the accounting treatment of implementing this requirement is provided prior to the effective date to include guidance related to tie points between budgetary and proprietary accounts and specifying which reports are required when FASB entities are consolidated with FASAB entities. |
| #14 Department of Homeland Security CFO   | Agree   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| #15 Nuclear Regulatory Commission OIG  | I agree.   |
| # 16 Federal Reserve System  | No response  |
| #17 TVA OIG  | No Response  |
| #18 DOD CFO  | Agree. The effective date seems reasonable to allow Component Reporting Entities to fulfill these requirements and update their accounting systems.  |
| #19 Commodity Credit Corporation CFO<br><b>5. Effective Date- April 2014</b> | Disagree. The change should be further out into the future to allow agencies to complete the necessary analytics and incorporate reporting changes. We would suggest agencies complete the information for FY17, with comparative presentation in FY18 financial statements.   |
| #20 Joseph H. Marren   | No response  |
| #21 HUD OIG  | We support the Board's position on questions 1 – 4 and 6-11  |
| #22 HHS OIG  | The effective date for the new Statement and Amendments to SFFAS 2 appears reasonable. This implementation date should give preparers and auditors of component and government-wide GPFRRs enough time to account or make any changes needed for reporting under the new statement.  |
| #23 SEC CFO  | Agree, provided that the SEC's concerns in Q1, Q3, and Q5 are addressed.   |
| #24 DOL OIG  | We agree with the proposed effective date.   |
| #25 Administrative Office of the US Courts                                   | No response  |
| #26 GSA CFO  | GSA agree that the effective date, which is well over two years from now, should give reporting entities sufficient time to prepare for these new guidelines and requirements.   |
| #27 GWSCPA FISC<br><b>5. Effective Date- April 2014</b>                      | The FISC suggests that the Board take an iterative step before full implementation of this ED. This Standard has the potential for some far-reaching consequences that may not be envisioned in deliberations during this limited comment period. We suggest that the Board consider an expanded comment period for implementation challenges, and/or allow the preparer community additional time to consider whether the consequences of this ED may result in unintended legal or political challenges. |
| #28 Joyce Dillard<br><b>5. Effective Date- April 2014</b>                    | No, it should be sooner. Political campaigns years should not be influential in these decisions. The year 2016 is a Presidential Election Year.  |
| #29 DOL CFO  | With regard to paragraph 102, we have no comments on the effective date. However, because coordination may be required between component entities and between the government-wide entity and component entities to   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b>5. Effective Date- April 2014</b>        | implement this accounting standard, we believe that encouraging earlier implementation may make coordination more difficult and that reporting entities may be better served by a date certain for implementation.   |
| #30 Intelligence Community                  | We agree the effective date gives entities adequate time to implement the new standard.  |
| #31 AGA FMSB                                | The FMSB agrees with the effective date.   |
| #32 NSB                                     | No response  |
| #33 Treasury Bureau of Fiscal Service (FMS) | Agree – the proposed date gives agencies an opportunity for the Board to consider reviewer responses, to effect any changes, roll out the new standard and for agencies to assess the impact as a Reporting Entity. It also provides the opportunity for early implementation. |
| #34 NRC CFO                                 | Agree.   |
| #35 FAF                                     | No Response  |
| #36 Treasury CFO                            | Agree. The proposed effective date seems reasonable as long as changes in reporting entity, if applicable, follow the past practice that these types of changes are not retroactively restated in comparative statements.  |
| <b>5. Effective Date- April 2014</b>        |  |
| #37 Smithsonian Institute CFO               | No response  |
| #38 FDIC                                    | No response  |
| #39 US RRB                                  | Disagree. Reporting entities should be given additional time, especially if consolidation is necessary. Propose the change be effective for periods beginning after September 30, 2020.  |
| <b>5. Effective Date- April 2014</b>        |  |
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| <b>QUESTION 10</b>   |             |
| <p><b>a. Do you agree the appendices are helpful in the application of the proposed standards?</b></p> <p><b>b. Do you believe the appendices should remain after the Statement is issued?</b></p> <p><b>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.</b></p> |             |
| #1 PBGC -Joint Response CFO & OIG  | No response |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| # 2 Holocaust Memorial Museum- CFO                                 | No response   |
| #3 Office of Personnel Management - CFO                            | <p>a. Agree the appendices are helpful in the application of the proposed standards.</p> <p>b. Yes. The guidance will assist entities in adopting the new standard.</p> <p>c. No. The summary chart in Appendix C appears to be excellent.</p>  |
| #4 Postal Service- OIG   | No response   |
| #5 SIPC  | No response   |
| #6 DOC CFO   | <p>a. The Department of Commerce agrees that the appendices are helpful in multiple ways. Seeing these examples, especially the inclusion principle illustrations in appendices B and C, allows you to understand how to apply the standard in a variety of situations. The appendices also provide good resource information to support the paragraphs in the body of the standard.</p> <p>b. The Department of Commerce believes that the appendices should remain after the statement is issued, because they assist in understanding and applying the standard.</p> <p>c. The Department of Commerce does not believe that any changes or additional examples are needed in the illustrations to understand the application of the standards.</p>   |
| #7 SSA CFO   | <p>a. We believe the appendices are helpful. The flowchart in Appendix B helps visually display the sequence of decisions involved in determining whether the entity is a consolidation entity or a disclosure organization. In addition, the flowchart is easy to follow and the page number references are useful to the reader. The illustrations provided in Appendix C help users apply the Standard by providing relevant examples.</p> <p>b. We believe the appendices should remain after FASAB issues the Standard because the information the appendices provide is helpful in understanding the application of the Standard.</p>   |
| #7 SSA CFO<br><b>6. Appendices- April 2014</b>                     | c. We believe that if the Board retains receivership, conservatorship, and intervention as part of this Standard as disclosure organizations, the Board should include examples of each in the Standard. In addition, it would be beneficial if FASAB relayed to users how they differentiate among these three categories.   |
| #8 NSF CFO   | <p>a. NO NSF COMMENT</p> <p>b. Yes – the illustrative scenarios in particular help the reader to understand FASAB’s intended application of each definition.</p>  |
| #8 NSF CFO<br><b>3. Related Party and 6 Appendices- April 2014</b> | c. NSF, and presumably other agencies with Boards such as the Nuclear Regulatory Commission and Federal Communications Commission, would benefit from a related party scenario involving agency Board members. The scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professor role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated. NSF is open to providing the board with scenario details if desired. |
| # 9 KPMG   | KPMG provided a Revised Flowchart for consideration, see letter.  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p>Staff believes the Appendices should remain non-authoritative guidance; the overwhelming response was they were helpful.</p> | <p>We did not review the illustrations provided in Appendix C for consistent application of the principles included within the statement because we believe these examples will become requirements and replace the application of the principles. As a result, we suggest removing Appendix C. If this removal causes concern because the examples provide important guidance, consider whether additional guidance should be added to the Principles and Characteristics section. (Appendix 4, V)</p> |
| <p>#10 Treasury OIG</p>   | <p>a. We agree that the appendices are helpful in the application of the proposed standard.<br/>                 b. Yes, We believe the appendices should remain after the Statement is issued.<br/>                 c. We have no suggested changes or additional examples that would be useful in understanding the application of the standards.</p>   |
| <p>#11 HUD CFO</p>  | <p>a. HUD agrees that the flowcharts and illustrations are useful in understanding the application of the standards.<br/>                 b. HUD believes the appendices should remain after the Statement is issued.<br/>                 c. HUD believes that the illustrations are adequate for understanding the application of this standard.</p>  |
| <p>#12 TVA CFO</p>  | <p>No response</p>  |
| <p>#13 NASA CFO</p>   | <p>a. NASA agrees. The appendices provided insight on the Board’s objectives and concerns, which facilitated understanding the proposed standard in the Statement.<br/>                 b. NASA agrees. The appendices will provide clarity on the background of the Statement standards and its applicability to various types of organizations.<br/>                 c. NASA does not recommend additional examples.</p>  |
| <p>#14 Department of Homeland Security CFO</p>  | <p>a. Agree<br/>                 b. Yes</p>   |
| <p>#15 Nuclear Regulatory Commission OIG</p>  | <p>a. I agree the appendices are very helpful.<br/>                 b. I believe the appendices should be part of the Statement after it is issued. Since these are tools to apply the Statement, they should remain.<br/>                 c. I do not have any changes or additional examples regarding the illustrations. I think they provide good examples for guidance of how to apply the Statement.</p>  |
| <p># 16 Federal Reserve System</p>  | <p>No response</p>  |
| <p>#17 TVA OIG</p>  | <p>No Response</p>  |
| <p>#18 DOD CFO</p>  | <p>a. Agree. The examples provided help demonstrate the inclusion principles out lined in the exposure draft, as well as the four attributes that distinguish what to consolidate or disclose. The flowchart summarizes the standard in a clear and concise way. “A picture is worth</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|   | <p>a thousand words.”</p> <p>b. Agree. The guidance will assist Component Reporting Entities in adopting the new standard.</p> <p>c. No changes at this time. The examples provided are helpful, they should not be considered all encompassing.</p>  |
| #19 Commodity Credit Corporation CFO            | <p>a. Agree—all of the appendices provide clarifying guidance. The decision flowchart will clearly aid reporting entities in the determination of inclusion and presentation.</p> <p>b. Yes</p> <p>c. None at this time.</p>  |
| #20 Joseph H. Marren                            | No response   |
| #21 HUD OIG                                     | We support the Board’s position on questions 1 – 4 and 6-11   |
| #22 HHS OIG                                     | <p>a. The appendices were extremely helpful in defining how to apply the proposed standards. The flowchart in Appendix B is also extremely helpful in showing support for the illustrations described in Appendix C.</p> <p>b. The appendices should remain in the Statement when issued by FASAB. They are especially helpful to those who have limited experience in Federal financial reporting.</p> <p>c. Not aware of any additional examples that would be useful in understanding the application of the standards</p>   |
| #23 SEC CFO<br><b>6. Appendices- April 2014</b> | <p>a. Agree that Appendix B could be helpful, except for recommended edits described in response to Q 1c and as follows: The decision tree appears to indicate that all organizations in the budget must be consolidated, either by a component entity or in the government-wide financial statements. The text of the proposed standard and Q2 indicate that this is not accurate. Accordingly, Appendix B should be edited to more accurately reflect the proposed requirements.</p> <ul style="list-style-type: none"> <li>Disagree for Appendix C.</li> </ul> <p>Reason: Appendix B, with the recommended edits described in response to Q1c, provides a summary decision tree that would be useful for preparers. The recommended edit is that the potential decision of “misleading to exclude” should be deleted. The rationale for this is explained in the SEC’s response to Q1c and Q3a.</p>      |
| #23 SEC CFO<br><b>6. Appendices- April 2014</b> | <p>Appendix C does not provide useful implementation guidance because it does not explain which factors were selected as the deciding factors, and why. The explanations imply that factors not mentioned could have been the deciding factors. (Illustrative “tentative conclusions” in Appendix C generally stated that “Management determined and the 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 [include/exclude] organization XX.”) For this reason, the illustrations in Appendix C do not provide useful implementation guidance.</p> <p>SEC Recommendation: Retain Appendix B (with recommended edits) but not Appendix C in the final standard.</p> <p>b. SEC Recommendation: Agree for Appendix B (with edit described in (a) above); Disagree for Appendix C. See</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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|  | <p>response to Q10a for rationale.</p> <p>c. No. See explanation in response to Q10a above.</p> <p>SEC Recommendation: It would be impractical to change Appendix C so that each example spelled out the factor or factors that were considered decisive. Instead, Appendix C should not remain when the Statement is issued.</p>  |
| #24 DOL OIG                                | <p>a. The appendices would be very helpful in the application of the proposed standard.</p> <p>b. Yes, the appendices should remain as a part of the issued Statement.</p> <p>c. We identified not additional changes or additions to the examples.</p>  |
| #25 Administrative Office of the US Courts | No response  |
| #26 GSA CFO                                | <p>a. The appendices provide some useful insight into application of the guidelines, but there are some inconsistencies in the examples, in the Commentator's opinion (see comments in Question 11 below). The guidelines serve to demonstrate how truly subjective this reporting requirement is, and how it can be anticipated that inconsistencies in application will be the norm for reporting disclosure organizations.</p> <p>b. GSA agrees that the appendices should remain as useful insight into application of the guidelines, but only after the examples goes through another review by independent parties to insure their consistency.</p> <p>c. See comments on 10a. above.</p>   |
| #27 GWSCPA FISC                            | The FISC agrees with the appendices included the ED.   |
| #28 Joyce Dillard                          | Yes, keep them in. The Board members are industry related, but the accountability is to the Public. Visual tools help as does color.   |
| #29 DOL CFO                                | No Comment   |
| #30 Intelligence Community                 | <p>a. We agree Appendix B (Flowchart) is helpful in the application of the proposed standards as it provides a simplified depiction of the process, including decision trees, to enable the user to easily understand the thought process that applies to determining the appropriate composition of the reporting entity.</p> <p>We agree Appendix C (Illustration) is helpful in the application of the proposed standards because it provides detailed scenarios for control, ownership, budget inclusion and related parties, which serve to deepen the reader's understanding of the concepts presented in the standard.</p> <p>Although Appendix A was not referenced in this question, we believe this appendix is helpful in the application of the proposed standards as it provides the reader with FASAB's rationale for each proposed action in the standard.</p> <p>b. We believe the appendices should remain after the Statement is issued for the reasons stated in Q10a.</p> <p>c. We do not believe there are any additional changes or examples needed.</p> |
| #31 AGA FMSB                               | <p>a. The FMSB agrees that the appendices are useful in applying the proposed standards.</p> <p>b. The FMSB believes the appendices should remain after the Statement is issued.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | c. The FMSB has no suggested changes.  |
| #32 NSB  | a. NO NSB COMMENT<br>b. Yes – the illustrative scenarios in particular help the reader to understand FASAB’s intended application of each definition.  |
| #32 NSB<br><b>3. Related Party and 6. Appendices- April 2014</b>   | c. NSF, and presumably other agencies with Boards such as the Nuclear Regulatory Commission, Federal Communications Commission, Federal Retirement Thrift Investment Board, and the Corporation for National and Community Service, would benefit from a related party scenario involving agency Board members. The scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professorial role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated. |
| #33 Treasury Bureau of Fiscal Service (FMS)  | a. Agree - Appendix B is a useful resource for organization considerations; Appendix C is useful in providing various examples.<br>b. Yes  |
| #33 Treasury Bureau of Fiscal Service (FMS)<br>“Consolidating” statements (columns for significant components with an eliminating entity column) are not presently required and we did not revisit that in this project. | c. Yes - The exposure draft does not provide clear guidance for the reporting entity’s financial statement presentation when it involves a consolidating entity (i.e. Is columnar presentation recommended or required that specifically identifies consolidation entities?) Are any updates necessary for OMB Circular A-136 or was consideration given to directing the reader to A-136 for sample presentation formats?   |
| #34 NRC CFO  | a. Agree.  |
| #34 NRC CFO<br><b>3. Applicability to Judicial and Legislative Branches- Dec 2013</b>  | c. Yes, include the Judicial and Legislative branches of government in paragraphs A38 – A41  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| #35 FAF  | No Response   |
| #36 Treasury CFO   | a. Agree. The appendices provide quick reference to pertinent sections.<br>b. Yes. The appendices should remain after the Statement is issued as they provide quick reference to pertinent sections.  |
| #36 Treasury CFO<br><b>6. Appendices-<br/>April 2014</b> | c. Yes. See Addendum A, and responses to Q1(c) and Q7(a) above regarding proposed changes to the Flowchart in Appendix B. Additionally, an illustration that provides clarity in the application of the "administratively assigned" principles would also be a positive addition to the standard. |
| #37 Smithsonian Institute CFO                            | No response   |
| #38 FDIC   | No response   |
| #39 US RRB   | a. Agree<br>b. Agree<br>c. no   |

| <b>QUESTION 11</b>   |  |
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| <b>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.</b> |  |
| #1 PBGC -Joint Response CFO & OIG  | No response  |
| # 2 Holocaust Memorial Museum- CFO   | No response  |
| #3 Office of Personnel Management - CFO  | N/A  |
| #4 Postal Service- OIG   | No response  |
| #5 SIPC  | No response  |
| #6 DOC CFO   | The Department of Commerce is not aware of any other unique situations that should be addressed within this statement.   |
| #7 SSA CFO   | We are not aware of any other unique situations that this Standard should address.   |
| #8 NSF CFO   | NO NSF COMMENT   |
| # 9 KPMG<br><b>7. Other</b>  | We believe the statement should address how an organization should be consolidated if it appears in the budget in multiple locations. For example, the National Railroad Passenger Corporation (Amtrak) is included in the budget of |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b>organizations – April 2014</b>  | the Department of Transportation and is also included as an Other Independent Agency (National Railroad Passenger Corporation Office of the Inspector General). (Appendix 4 II)   |
| # 9 KPMG   | We understand that certain equity investments currently are required by legislation to be accounted for in accordance with the Federal Credit Reform Act and normally follow the requirements of SFFAS 2, Accounting for Direct Loans and Loan Guarantees. As equity is an ownership interest, we believe that these equity investments could result in a majority ownership interest, which is considered an indicator of control and therefore would trigger the need to evaluate the organization against the Principles contained in the statement. This will cause a change in accounting principles, which we believe should be addressed by the statement (Appendix 4 III) |
| #10 Treasury OIG   | No response.  |
| #11 HUD CFO  | HUD believes that there are no other unique situations that should be addressed within this Statement.  |
| #12 TVA CFO  | No response   |
| #13 NASA CFO   | No response   |
| #14 Department of Homeland Security CFO<br><br>Appropriate GAAP standards would apply. | Yes, when the government divests its ownership interest in an organization. How will comparative statements be prepared.  |
| #15 Nuclear Regulatory Commission OIG  | I am not aware of any unique situations that should be addressed within this Statement.   |
| # 16 Federal Reserve System  | No response   |
| #17 TVA OIG  | No Response   |
| #18 DOD CFO  | No unique situations are noted, at this time.   |
| #19 Commodity Credit Corporation CFO   | Not aware of any at this time.  |
| #20 Joseph H. Marren   | No response   |
| #21 HUD OIG  | We support the Board’s position on questions 1 – 4 and 6-11   |
| #22 HHS OIG  | Not aware of other unique standards that should addressed within this Statement.  |
| #23 SEC CFO  | The proposed SFFAS lists a large number of indicators/factors both for and against inclusion, and for and against consolidation. As a result, considerable future resources will likely be expended as federal component entities and   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <p><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p> <p>and</p> <p><b><u>1. In the Budget – Dec 2013</u></b></p> | <p>their auditors debate which factors should be considered decisive for a large number of organizations, most of which are immaterial for the government-wide GPFFR.</p> <p>The proposed standard indicates that legislation should not determine inclusion or exclusion (paragraph 4). It is difficult to imagine what could be more authoritative information on the nature of an organization than the legislation that established the organization or authorizes its activities. Entities carrying out governmental functions generally may do so only to the extent authorized by legislation. If the organization’s activities are beyond the scope authorized, that raises legal issues regarding governmental responsibility for its actions. Meanwhile, much larger organizations, such as most of the Legislative and Judicial branches of the federal government, are not included in the government-wide GPFFR. This material omission is not mentioned in the proposed standard; it is only mentioned in the Basis for Conclusions, which may or may not be retained in the final standard.</p> <p>The SEC also questions whether it is cost-beneficial for federal entities to expend increasingly scarce resources evaluating and defending decisions on the inclusion/exclusion of reporting on relatively immaterial organizations.</p> <p>SEC Recommendation:</p> <p>In order to avoid expending increasingly scarce resources addressing the pros and cons of reporting relatively immaterial organizations, the SEC recommends a more cost-beneficial approach by making the following edits:</p> <p>(a) Moving the discussion of the Legislative and Judicial branches from the Basis for Conclusions in paragraph A13 to the Introduction, just before paragraph 4, and change “would” to “should,”</p> <p>(b) Incorporating existing paragraph 42 of SFFAC 2 into the proposed new SFFAS without change and without an added reference to the Single Audit Act as an indicator of control, and</p> |
| #23 SEC CFO  | <p>(c) Making paragraph 4 less biased toward inclusion of numerous immaterial organizations by deleting the following sentence:</p> <p>Even in cases where legislation indicates an organization 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.</p>  |
| #24 DOL OIG  | None.   |
| #25 Administrative Office of the US Courts   | No response   |
| #26 GSA CFO  | No comments   |
| #27 GWSCPA FISC  | Please see our responses to questions 2 & 7.  |
| #28 Joyce Dillard  | The Judicial Branch is to hidden from the Public and it is part of the three-armed governance. They must be included. Memorandums of Understanding should be addressed. It becomes a form of government outside representation and that signature may only need the approval of an agency head, not a legislative approval. Yes, they may involve Local   |
| <b><u>3. Applicability to</u></b>  |   |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| <p><b>Judicial and Legislative Branches- Dec 2013</b></p>  | <p>and State Government Agencies and Non-Profit Corporation hybrids.</p>  |
| <p>#28 Joyce Dillard<br/>Staff notes there is an active project on PPP.</p>  | <p>Public-Private Partnerships are formed to avoid public disclosure and oversight when it is time to rein the secrecy.</p>   |
| <p>#29 DOL CFO<br/><b>6. FASB Based Information</b></p>  | <p>We believe that if FASAB proposes no conversion from FASB to FASAB information for those amounts to be consolidated, then there should also be no conversion from FASB to FASAB information for those amounts to be disclosed.</p>   |
| <p>#29 DOL CFO<br/><b>Open- Editorial, structural, or clarified in BfC</b><br/><br/><i>Staff doesn't believe the opposite is automatically construed for each statement.</i></p> | <p>DOL/OCFO believes that there are entities currently consolidated in the Financial Report of the U.S. Government for which the U.S. Government is not responsible for obligations of this entity under current law. For example, the FY 2012 Financial Report of the U.S. Government states, "PBGC insures pension benefits for participants in covered defined benefit pension plans. As a wholly-owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general." (FY 2012 Financial Report of the U.S. Government, Note 18, page 105) We do not believe that the exposure draft addresses this unique situation with regard to consolidation entities. In paragraph A71, the second sentence states, ". . . liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for organizations having the characteristics of disclosure organizations should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements." The wording in paragraph A71 for disclosure organizations may imply that consolidation entities would have liabilities that would be fully guaranteed by the Federal government.</p> |
| <p>#29 DOL CFO<br/>Staff can understand how certain relationships when considering "funds" may become unclear, but describing fiduciary activities in</p>                        | <p>DOL/OCFO believes that the relationship between this exposure draft and SFFAS 31, "Accounting for Fiduciary Activities," is unclear. Please describe the relationships between the fiduciary activities and the reporting entity from the government-wide entity and component entity perspective.</p>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| a proposal based on organizational basis may confuse more than provide clarity.  |   |
| #30 Intelligence Community<br><b>7. Other Organizations- April 2014</b>  | We believe an exception statement should also be added for the applicability to certain entities if application of this standard will be detrimental to national security.  |
| #30 Intelligence Community<br><br>GAAP and Other Form and Content Guidance applies.  | <ul style="list-style-type: none"> <li>The proposed guidance does not include information pertaining to the disclosure of the consolidation policy in the GPFFR. It would be helpful to the user to understand the policy implemented to by each consolidating entity. The consolidation process will differ from organization to organization; therefore, providing stakeholders with information pertaining to the policies and methodologies employed could significantly enhance the users understanding of the financial reports.</li> </ul>   |
| #30 Intelligence Community<br><br>Treasury guidance and long standing professional practices deemed sufficient.                    | <ul style="list-style-type: none"> <li>The proposed guidance does not discuss differences in fiscal periods between the consolidating entity and the component entity. There are instances in which the fiscal periods may differ for some entities; therefore, the board should consider including guidance related to consolidating an entity with a fiscal period different than that of the consolidation entity. For example, a component entity may be required to prepare a set of financial statements for a period that corresponds with or closely approaches the fiscal period of the consolidation entity.</li> </ul>   |
| #30 Intelligence Community<br><br>Beyond scope of the project. GAAP Hierarchy would apply in situations if determined appropriate. | <ul style="list-style-type: none"> <li>Presentation guidance for consolidating and/or combining financial statements is not provided in the statement. The board should consider the possible conflicts and interpretation differences among preparers and auditors of GPFFRs that could arise due to limited guidance between combining and consolidating and the process of presenting information in a uniform manner for users.</li> <li>The statement does not discuss principles and guidance related to combinations. Instances could arise in which a combination of ownerships or non-controlling interests is employed by the preparer. The board should address differences in consolidation and combinations of organizations in the financial statements and the disclosures, and the appropriate presentation that may not be provided in SFFAC No. 2 or SFFAS No. 34.</li> </ul> |
| #30 Intelligence Community<br><br>Beyond scope of  | <ul style="list-style-type: none"> <li>Deconsolidation principles and guidance are not provided in the statement (the reporting entity deconsolidating a consolidation entity as of the date the reporting entity no longer has majority ownership, exposure to significant benefits or losses, contractual agreement expires, etc.) Presentation requirements for deconsolidations are also not provided in the statement. The board should provide principles and guidance</li> </ul>   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| the project.  | related to these matters since they are possible situations that may occur.   |
| <p>#30 Intelligence Community</p> <p>Majority ownership provides for which organizations will be included. The assessment of the characteristics between consolidation entity and disclosure organization determine how it will be presented.</p> | <ul style="list-style-type: none"> <li>Majority ownership does not necessarily ascertain that an organization should be included as a consolidation entity or disclosure organization. The board should consider adding a paragraph to the statement providing guidance on a majority-owned entity that does not rest with the majority owner. For example, FAS 160/ABS 51, regarding subsidiaries and parent reporting entities, states that “a majority-owned entity shall not be consolidated if control does not rest with the majority owner if the entity is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast doubt on the parent’s ability to control the entity.” Similar scenarios and situations should be considered when evaluating the majority ownership of an organization from the perspective of the federal government because there are possible situations which may arise that prohibit the Federal Government from having control of the consolidated or disclosed entity.</li> </ul> |
| <p>#30 Intelligence Community</p> <p>GAAP applies.</p> <p>The proposal addresses ownership through net residual assets and when it holds ownership through its components. Less than a 50% interest is accounted for in accordance with GAAP.</p> | <ul style="list-style-type: none"> <li>A consolidating entity’s interest as the majority owner may change as a result of legal, regulatory, or financial difficulties, the consolidation entity may issue additional stock, which could alter the majority ownership position, purchase and/or sell ownership interests, and change a contractual agreement, which provides control over an entity.</li> <li>The combination of several non-controlling interests could result in a potential risk, loss, or expected benefit to the federal government and could be more impactful than a majority ownership. The board should consider the impact of combining non-controlling interests and the way this information should be presented and disclosed.</li> </ul>   |
| #31 AGA FMSB  | No response.  |
| #32 NSB   | No Response   |
| #33 Treasury Bureau of Fiscal   | <ul style="list-style-type: none"> <li>Should a reporting entity or the consolidating disclosure entity know or make known that another entity is consolidating or disclosing information about the agency to avoid more than one agency reporting/disclosing the</li> </ul>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <p>Service (FMS)</p> <p>The central agencies intend to provide coordinated guidance and the proposed guidance elaborates on this. One would anticipate written guidance to be developed. Further the proposal is clear multiple entities may disclose the same entity.</p> | <p>same entity? (The standard does not appear to assist agencies in determining substantial control if control resides with more than one federal agency.)</p> <ul style="list-style-type: none"> <li>How does Treasury intend to capture the information necessary to consolidate/disclose data without possibly duplicating consolidating reporting entity data that may be submitted by multiple federal agencies?</li> </ul>  |
| #34 NRC CFO  | No.   |
| #35 FAF  | No Response   |
| #36 Treasury CFO   | No. We did not identify any other unique situation that should be addressed.  |
| #37 Smithsonian Institute CFO  | No response   |
| #38 FDIC   | No response   |
| <p>#39 US RRB</p> <p><b>7. Other Organizations- April 2014</b></p>   | <p>Yes. We have a unique situation due to reporting of net assets for NRRIT (non-federal government entity). We may not be able to provide the audited figures for consolidation to the Federal government agency in time to meet the 45 day time table for submission to the Department of the Treasury due to timing of completing agency's financial statements audited position before the data is provided to Treasury and non-federal government entity's audited position of net assets included in agency's financial statements.</p> |

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| <p><b>QUESTION 12</b></p> <p><b>a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.</b></p> |  |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| <b>b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.</b> |  |
| #1 PBGC -Joint Response CFO & OIG   | No response  |
| # 2 Holocaust Memorial Museum- CFO  | No response  |
| #3 Office of Personnel Management - CFO   | <p>a. Disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations. Believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control; as they are not consolidated into a federal reporting entity’s financial report, and the disclosure can use language to make it clear that they are not part of the Federal Government.</p> <p>b. Disagree with the alternative view. The proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. This proposed Statement also addresses whether organizations are required to apply the GAAP hierarchy for federal reporting entities, and it was clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are “part of the federal government” for legal or political purposes.</p> |
| #4 Postal Service- OIG  | No response  |
| #5 SIPC   | No response  |
| #6 DOC CFO  | <p>a. The Department of Commerce generally does not agree with the alternative view that the standards might infer that receiverships, conservatorships, and interventions are part of the federal government due to them being included in other disclosure organizations. Steps should be taken to highlight the temporary nature of these organizations in the disclosures, so they are not seen as permanent parts of the federal government.</p> <p>b. The Department of Commerce generally does not agree with the alternative view that guidance for all interventions should be presented in a single standard. Although a single standard would be easy to reference and may decrease the probability of misunderstanding the standards by providing one document, it seems unnecessary since interventions can be clearly presented in additional paragraphs. Future updates will be better accommodated through additional paragraphs, instead of completely replacing the existing standard(s) with a new one.</p>   |
| #7 SSA CFO  | <p>a. We believe receiverships, conservatorships, and interventions are examples of types of disclosure organizations. In order for the Federal Government to provide a comprehensive and complete GPFFR, inclusion of these three types of organizations is necessary to provide a meaningful representation of operations and financial condition of the Federal Government.</p> <p>b. We believe FASAB can address the guidance for interventions in the Reporting Entity Standard rather than in a single Statement of Federal Financial Accounting Standard.</p>  |
| #8 NSF CFO  | NO NSF COMMENT   |
| # 9 KPMG<br>Alternative view language will be   | Paragraphs A89-A93 provide an alternative view as it relates to receiverships, conservatorships, and interventions. While we agree that receiverships, conservatorships, and interventions could be covered within a Risk Assumed statement as is suggested in the alternative view, we believe these types of relationships should remain within this   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| handled in normal protocol.             | statement, until at a later date it becomes apparent that an amendment to the statement is necessary to place these types of relationships in a separate statement related to other Risk Assumed matters. (Appendix 4 VIII f)   |
| #10 Treasury OIG                        | No response.  |
| #11 HUD CFO                             | <p>a. HUD does not agree with the alternative view that the proposed standard should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government. We believe that including these types of entities makes the standard more complete. Given that certain organizations were established in the private sector, carry out activities not intended to be performed by the federal government and are temporary, gives the impression that these entities are not part of the Federal government.</p> <p>b. HUD does not agree with the alternative view. We believe that one standard (i.e., this Exposure Draft) should cover all consolidation and disclosure entities in the GPFFR, including interventions, regardless of the type, to maintain consistency.</p>   |
| #12 TVA CFO                             | No response   |
| #13 NASA CFO                            | NASA neither agrees nor disagrees with this statement.  |
| #14 Department of Homeland Security CFO | <p>a. Disagree, if an organization meets one of the three inclusion principles it should be included in the GPFFR.</p> <p>b. Disagree, this exposure draft's proposed three inclusion principles meets the modern governmental and quasi-governmental arrangements that would also include receiverships, conservatorships, and/or interventions.</p>   |
| #15 Nuclear Regulatory Commission OIG   | <p>a. I disagree with the alternative view. I think receiverships, conservatorships, and interventions should be a part of the GPFFR if they meet the criteria of inclusion rules. I think the Statement clearly makes the distinction that disclosure entities are not required to apply the GAAP hierarchy for federal reporting entities.</p> <p>b. I disagree with the alternative view. I think interventions should be addressed in SFFAC 34 because they should be included in an entities GPFFR if they meet the inclusion rules. The financial risks associated with interventions should disclosed to the GPFFR users to provide them with the necessary information to make informed and sound business decisions.</p>   |
| # 16 Federal Reserve System             | No response   |
| #17 TVA OIG                             | No Response   |
| #18 DOD CFO                             | <p>a. Disagree. The proposed standard appropriately distinguishes between consolidation entities and disclosure entities, including receiverships, conservatorships, and interventions. The Federal Government assumes some risk in these endeavors and does exhibit some control. Therefore, these entities need to be included, but it is important that the disclosures clearly state that they are not part of the Federal Government. It is important for the Federal Government to be as transparent as possible, especially when it involves public funding. Additional explanation within the disclosure could emphasize the government's position.</p> <p>b. Disagree. This proposed standard attempts to establish which entities need to be included in the GPFFR. It also establishes which entities need to be consolidated and which entities need to be disclosed. Receiverships, conservatorships, and interventions need to be disclosed since they pose a potential risk to the Federal Government. Any additional guidance as to the proper accounting for these entities, or risks assumed, could be resident in another standard, but disclosure requirement are appropriately resident in this proposed standard.</p> |
| #19 Commodity Credit                    | a. Disagree. While the inclusion of these organizations greatly broadens the scope—the disclosure of Government involvement in the organization management and financial actions provides the user of the statements significant information. The disclosure needs to be  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| Corporation CFO  | <p>concise and not duplicate information reported.</p> <p>b. Disagree. The current statement is focused on the reporting entity—it should ensure that it is not in conflict with other statements or concept papers.</p>   |
| #20 Joseph H. Marren   | No response  |
| #21 HUD OIG  | We support the Board’s position on questions 1 – 4 and 6-11.   |
| #22 HHS OIG  | <p>a. The alternative view should not be considered based on the fact these are still disclosures organizations. All Federal reporting entities should disclose areas where the component reporting entities or the Federal government taken as whole would be at risk. Receiverships, conservatorships and interventions provide a great deal of risk for Federal agencies. Disclosure of these items helps report on actual financial condition of the Federal government.</p> <p>b. All requirements for reporting entities should be included in one single Statement of Federal Accounting Standards. Two different Statements of Federal Financial Accounting Standards that define potential reporting entities or disclosure organizations could create different interpretations and lead to inconsistent financial reporting.</p>  |
| #23 SEC CFO  | The SEC has no comment   |
| #24 DOL OIG<br><br>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting. | <p>a. We believe the alternative view includes a number of valid points; however, we believe these can be addressed by the standard establishing a minimum level of disaggregation and disclosure of information for such entities. We do concur with the majority view that such entities should be included in the GPFRR. The proposed standard allows latitude as to presentation for disclosure entities and whether and how disclosure entities should be aggregated or reported separately (paragraphs 70 through 73 of the proposed standard, and A45 of Appendix A). Perhaps two broad classes of disclosure entities could be defined with the requirement for separate reporting and minimum level of disclosure in the GPFRR. This may help address the concerns raised in the alternative view, which we share.</p> <p>b. A separate standard on interventions may be appropriate for other purposes; however, the standard on the reporting entity should provide complete guidance on determining what constitutes the reporting entity and stand on its own.</p>  |
| #25 Administrative Office of the US Courts   | No response  |
| #26 GSA CFO  | <p>a. GSA disagrees with the alternate view. It is pointed out that Mr. Steinburg's position is that the organizations in question were established in the private sector and they carry out activities not intended to be performed by the federal government, and that equating them with other disclosure organizations could be viewed as a broadening of the reach of the federal government into the private sector. GSA not only believes that equating these bailout entities with other disclosure organizations could be viewed as a broadening of the reach of the federal government, but that is in fact exactly what happened. It is not a view - it is a fact. The real question is how such dramatic interference into operations of the private sector could ever possibly be legal. When the government owns something, it is part of the federal government by definition. There is no avoidance of that fact.</p> <p>b. GSA sees no problem with disclosing the information as a separate standard as long as it is fully disclosed and is fully accounted for as part of the assets and liabilities of the Federal government. More important to the subject at hand would be how to fully disclose the government's current and future potential liabilities in these areas.</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p>#27 GWSCPA FISC</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>            | <p>The FISC agrees with the Board Member’s alternative view. Receiverships, conservatorships, and interventions are less than temporary in nature, and information related to the federal government’s role in these organizations should be disclosed separately from the financial information included for disclosure organizations in the notes to the financial statements of the GPFFRs. We suggest that the disclosures for receiverships, conservatorships, and interventions be limited to the risk of loss or expectation of benefit associated with the federal government’s temporary role in those organizations. We agree with the Board Member that presenting all of the financial information for receiverships, conservatorships, and interventions would give a false impression to the readers of the GPFFRs of the federal government’s size and financial position.</p>   |
| <p>#28 Joyce Dillard</p>   | <p>No response</p>  |
| <p>#29 DOL CFO</p>   | <p>No Comment</p>   |
| <p>#30 Intelligence Community</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p> | <p>a. We agree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government. If these types of entities have a material relationship with the federal government, they should be disclosed, but there needs to be criteria developed to distinguish the reporting requirements for these types of entities versus true disclosure entities per this standard. The proposed standards should establish specific terminology in order to refer to disclosure entities that are part of the federal government and disclosure entities that are not part of the federal government. The current definition and proposed language for disclosure entities could create unnecessary confusion regarding the type of relationship between a disclosed entity and the federal government, and between a receivership, intervention, or conservatorship (RIC) and the federal government. Disclosure organizations are categorized in the statement as (1) receiving limited or no funding from general tax revenues, (2) having less direct involvement, and influence, by the Congress and/or the President, (3) imposing limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis. These requirements as well as those mentioned throughout the statement do not align with RICs due to</p> <ul style="list-style-type: none"> <li>• the unique nature of their relationships with the federal government;</li> <li>• the government’s exposure to significant loss or benefit;</li> <li>• the characteristics of RICs in relation to those of a typical disclosure organization; and</li> <li>• the high degree of influence by Congress and/or the President.</li> </ul> <p>The board should consider differentiating between organizations required to be disclosed and a disclosure entity. RICs should be disclosed in the financial reports; however, based upon the statement they do not meet the qualification of disclosures organizations (i.e. an organization being disclosed does not necessary mean it’s a disclosure organization). As a result, the board should consider developing separate distinctions and principles for RICs in order to segregate the characteristics and nature of disclose organizations from RICs.</p> <p>b. We agree a separate standard should be developed to capture and address all of the unique aspects of these</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|   | types of entities. Guidance for all interventions should be presented in a single Statement of Federal Financial Accounting Standard in order to adequately discuss all situations and concerns that may arise related to interventions. The brief guidance provided in this proposed Statement of Federal Financial Accounting Standard does not capture all aspect of interventions; therefore, in order to effectively guide preparers on this subject matter a single standard should be established.  |
| #31 AGA FMSB<br>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting. | No response, but staff notes in the general comments:<br><br>Comments on Alternative Views in the Basis for Conclusion Section<br><br>We have read the alternative views contained in paragraph A89 through A93 and we find that the views presented by Mr. Steinberg regarding the case of receivership, conservatorships and interventions are compelling. Although we are disappointed that the FASAB chose to omit these from the current project, we agree with Mr. Steinberg that these issues must be considered in the risk assumed project. In our letter of comments regarding the FMSB's latest three year plan, we had suggested that these projects be combined or operated on parallel tracks as there are interrelated issues that must be considered.  |
| #32 NSB   | No Response  |
| #33 Treasury Bureau of Fiscal Service (FMS)   | a. Disagree – One purpose of financial statement disclosure is to provide relevant information to assist the reader in interpreting unique relationships between federal entities and/or federal/non-federal entities and why/how those relationships were formed and the extent to which they exist; resulting receivables/payables and operating activities that exist between the entities should be appropriately disclosed<br><br>b. Disagree – I believe one standard focusing on the “Reporting Entity” is capable of addressing consolidating entities as well as disclosure organizations. Due to the short term nature of interventions, a separate standard could easily be disregarded by a reporting entity as it considers the impact of consolidation only, giving little or no consideration to interventions due to their infrequency of occurrence |
| #34 NRC CFO<br>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.  | a. Agree.<br><br>b. No, a separate standard does not seem necessary and exceptions should be included within the single standard.  |
| #35 FAF   | No Response  |
| #36 Treasury CFO  | a. Disagree. The criteria proposed in the ED seem clear enough that a reader would not infer that receiverships, conservatorships, and interventions are part of the federal government.<br><br>b. Disagree. One standard focusing on the “reporting entity” is capable of addressing consolidation and disclosure entities. Due to the short-term nature of interventions, a separate standard would only require the same disclosures as are being proposed in this standard for disclosure entities, thereby creating unnecessary duplication.  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| #37 Smithsonian Institute CFO   | No response   |
| #38 FDIC<br>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting. | <p>12a: Inclusion of Receiverships/Conservatorships as Disclosure Organizations</p> <p>The FDIC does not believe FDIC-established receivership and conservatorship entities should be equated with other disclosure organizations for government-wide reporting and disclosure purposes. It is our belief that receiverships and conservatorships do not meet the definition of disclosure organizations. These entities are self-funded without reliance on taxpayer dollars and are governed by separate statutory roles and responsibilities. In addition, the FDIC is already a consolidating entity with the Federal government and we submit our financial information for inclusion in the Federal government's September 30 financial statements. The impact on the FDIC from failed financial institutions is captured in the Deposit Insurance Fund's net assets presented on its balance sheet as Receivables from Resolutions, Net. For the Federal government's consolidated financial statements, the relevant financial effects of receiverships administered by the FDIC are already captured and presented in its Other Assets.</p> <p>Generally, we believe that the inclusion of such entities as disclosure organizations would be misleading to the users of the government-wide financial statements because these are not Federal assets or liabilities (i.e., the Federal government has no claim on these entities beyond what is consolidated in the financial statement of the Deposit Insurance Fund's Net Receivable). Receiverships are administered by the FDIC under unique statutory parameters in the Federal Deposit Insurance Act. These receiverships are not owned or controlled by the Federal government, as such, but are subject to the oversight of the FDIC, as receiver, for a particular failed institution and have statutory responsibilities to the creditors of that entity, including the FDIC. Conservatorships represent a transitional phase of the resolution process, which may result in a final receivership in liquidation. The FDIC, in its corporate capacity, as administrator of the Deposit Insurance Fund, is a creditor in all receiverships, when established, and that creditor relationship is recognized as a net receivable in the Fund's financial statements. All required disclosures concerning the effects of receiverships and conservatorships on the FDIC are appropriately contained in the Fund's financial statement notes.</p> <p>12b. No Response</p> |
| #39 US RRB  | <p>a. No Comment</p> <p>b. No Comment</p>   |

**Listing of Additional Comments**

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| #9 KPMG<br>While staff was directed to | <p><i>General Structure</i></p> <p>The statement should be divided into two sections – Principles and Characteristics and Presentation Requirements.</p> |
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Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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Editorial comments considered w/ June Draft

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| <p>incorporate clarifications where appropriate, the Board appeared to want to maintain the overall structure of the proposal.</p>   | <p>Should present principles for consolidation or disclosure at both the government-wide and component reporting entity level. It should be clear that the principles apply to both the government-wide and component reporting entity level.</p>   |
| <p>#9 KPMG</p> <p><b>Open- Editorial, structural, or clarified in BfC</b></p> <p><i>Staff removed the word “financial” from the proposed amendment.</i></p> <p><i>Staff notes other small clarifying and streamlining edits were made to the document. However, the board did not choose to revamp the layout of the document.</i></p> <p><i>As the board deliberated and considered the comment letters and testimony, the board agreed with the inclusion principles and overall structure of the ED. Further,</i></p> | <p>T As noted in paragraph 13 of the ED, SFFAC 2 (paragraph 38) uses the term “financial accountability;” therefore, we suggest that the term “accountability” be replaced with “financial accountability” throughout the statement. In addition, the term “financial accountability” should be added to the definitions section.</p> <p>In conjunction with our suggested removal of “inclusion entity” and the resulting simplification of the statement, our suggested revision of paragraph 1 is as follows:</p> <p style="padding-left: 40px;">The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, <b>general purpose federal financial reports</b> (GPFRR) for the <b>government-wide reporting entity</b> should be broad enough to reflect the financial accountability of Congress and/or the President for those organizations. In addition, <b>component reporting entity</b> GPFRRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, addresses identifying <b>reporting entities</b> and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards. Standards that can be used to identify organizations to be consolidated and/or disclosed in the GPFRR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.</p> <p>Based on our suggestion to divide the statement into two main sections – Principles and Characteristics and Presentation Requirements, we provide the following suggested revision for paragraph 2, which also includes information from paragraph 3, thereby eliminating paragraph 3:</p> <p style="padding-left: 40px;">This Statement guides preparers of GPFRRs in determining what organizations should be consolidated and/or disclosed in the reporting entity’s GPFRR as well as the presentation requirements related to consolidated and disclosure organizations. This statement also provides guidance on identifying and disclosing related parties. This guidance, together with existing guidance, will ensure that users of GPFRRs are provided with comprehensive financial information about federal reporting entities so that the federal financial reporting objectives are met.</p> <p>Paragraph 4 provides useful guidance for evaluating control. We suggest that it be moved to that section of the statement.</p> <p>As suggested in the general structure, we recommend placing the information included in paragraphs 13-19 (Organizational Approach) within the Purpose section of the statement. Paragraphs 13 and 14 would follow</p> |

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| <p><b><i>many of these items or specific comments were clarified during the PH testimony and the board determined they did not want to pursue further and/or staff did not believe necessary to clarify further in the standard.</i></b></p> | <p>paragraph 3, and paragraphs 15-17 and 19 would be combined into one paragraph as follows:</p> <p>his statement:</p> <ul style="list-style-type: none"> <li>• establishes the principles for identifying organizations to consolidate or disclose within the government-wide and/or component reporting entity;</li> <li>• provides the presentation requirements related to consolidated and disclosure organizations; and</li> <li>• provides guidance for identifying related parties and the disclosure requirements for such relationships.</li> </ul> <p>If the statement will separately discuss the central banking system, the information from paragraph 18 should be included in this section.</p> <p><i>Scope and Applicability</i></p> <p>a. Paragraph 6 states, “This statement applies to federal reporting entities that prepare GPFFR in conformance with GAAP as defined by SFFAS 34.” GAAP as defined by SFFAS 34 includes FASB standards for those federal reporting entities that have historically prepared financial statements in accordance with FASB standards. The FASB Accounting Standards Codification contains standards for consolidation. The scope paragraph implies that federal reporting entities that follow FASB, as allowed by FASAB 34, would need to follow this statement for consolidation. In doing so, a federal FASB entity would no longer report in accordance with FASB standards as related to consolidation. Therefore, we suggest that this conflict be resolved.</p> <p>Paragraph 7 of the scope should be revised as follows:</p> <p>The purpose of this statement is to enable federal reporting entities preparing and issuing GPFFRs to determine what organizations should be consolidated or disclosed in its GPFFR and to determine the presentation requirements for consolidated and/or disclosure organizations.</p> <p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>a. Throughout the ED and its footnotes, embedded definitions should be moved to the definition section.</li> <li>b. This section should include a definition for financial accountability.</li> <li>c. We do not believe that paragraph 9 is the definition of the government-wide reporting entity. It is a statement of what should be included in the financial statements of such an entity.</li> <li>d. The definitions of consolidated and disclosure organizations should be included in this section.</li> </ul> <p><i>Presentation</i></p> <p>We suggest the following revision to paragraph 64 to ensure consistency between the terms used in the Principles and Characteristics section and the Presentation Requirements section. We also note that the last sentence included in paragraph 64 provides a definition for the term “consolidation,” which we believe should be moved to the</p> |
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**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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|  | <p>definitions section of the statement, and as a result it is not included in our suggestion revision.</p> <p>Consolidated financial statements should be prepared for the government as a whole to facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information of all organizations identified through the application of the principles and related characteristics of a consolidated organization.</p>   |
| <p>#9 KPMG</p> <p><b>Open- Editorial, structural, or clarified in BfC</b></p> <p><i>Agree that par. A41 and par. 38 should be consistent. Clarifications were made to par. 38.</i></p> | <p>OTHER COMMENTS on BfC</p> <p>The “Indicators of Control” in paragraphs A23-A27 is the order which we have suggested in the general structure. (Appendix 4 VIIIb)</p> <p>We suggest that the heading before paragraph A30 state, “Characteristics of Consolidated and Disclosure Organizations. (Appendix 4 VIIIc)</p> <p>Paragraph A41 implies that not all of the characteristics of a consolidated organization need to be met to be considered a consolidated organization; however, this should be clarified within the statement at paragraph 38. (Appendix 4 VIIIId)</p>  |
| <p>#9 KPMG</p> <p><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p>  | <p>Paragraph 1 states, “the government-wide reporting entity should be broad enough to reflect the Congress and/or President’s accountability for those organizations.” Paragraph A13 of the Basis for Conclusion states, “Although the legislative and judicial branches are not currently required to prepare financial statements, based on the principle (in the budget) those organizations would be reported upon in the government-wide report.” Without commenting on the accountability of each branch under the Separation of Powers included with the Constitution, we believe that the consolidation of the judicial branch would provide a more complete presentation of the financial position of the government-wide reporting entity. (Appendix 4 I)</p> <p>Paragraph A13 implies that the judicial branch should be consolidated in the government-wide GPFFR, although noting that the judicial branch is not currently required to prepare financial statements. Further, footnote 53 states that FASAB GAAP would be the appropriate accounting standards for these organizations to adopt to the extent they prepare GAAP-based financial statements. Therefore, if the judicial branch were to prepare GAAP-based financial statement, they should follow FASAB GAAP. This statement conflicts with SFFAC 1, paragraph 5, which states, “FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. (Appendix 4 VIIIa)</p> |
| <p>#9 KPMG</p> <p><b>3. Related Parties- April 2014</b></p>  | <p>We find paragraph A84 to be confusing and do not understand why this statement should defer to OMB for additional disclosure requirements for related parties. We believe this statement should be all inclusive of the required related party disclosures or the Board should consider a separate standard to address related parties. (Appendix 4 VIIIe)</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p>AGA FMSB #31<br/><b>3. <u>Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p>  | <p>Paragraph 40 – This paragraph discusses the governance structure and that for consolidation entities the chain of command leads directly to elected officials. We would suggest that the FASAB include in this paragraph a statement that the judicial and legislative branches are included in the Federal Entity as stated in paragraph A13 of the Basis for Conclusions. This might avoid confusion regarding the chain of command issue to the user.</p>   |
| <p>AGA FMSB #31<br/><b>3. <u>Related Parties- April 2014</u></b></p>   | <p>Paragraph 87 – Paragraph 87 provides guidance regarding what should be disclosed once the determination is made that an entity is considered a related party. We believe that part 87.b. should be expanded to include information that discusses the fiscal interdependency of the related party to the federal funds in addition to information on the risks to the federal government. What represents a small risk or exposure to the federal government will generally present a significant risk to the related party. Such potential impacts should be disclosed relevant to related parties.</p>   |
| <p>AGA FMSB #31<br/><b>4. <u>Term for Disclosure Organization- Dec 2013</u></b></p>  | <p><u>Selected Terminology</u><br/>In reviewing the exposure draft we believe that the FASAB needs to reconsider the terminology selected to describe disclosure organizations. In the exposure draft, the FASAB has chosen the terms “consolidation entities” and “disclosure organizations” to distinguish between who shall have its financial information integrated into the GPFFR and who shall not have its financial information integrated into the face of the GPFFR but instead included in the notes to the GPFFR. We understand the need for such distinction but we are concerned that the term “disclosure organization” will cause confusion on two fronts. The general term disclosure is associated with a wide variety of issues, yet as used in this exposure draft it is now associated with the accounting for a very specific purpose. Likewise, we see the term “organization” used in place of the word entity, when speaking about organizations whose financial information will not be shown on the face of the GPFFR. Is an organization the same as an entity, but just handled differently? This can cause confusion.</p>  |
| <p>AGA FMSB #31<br/>The Board deliberated the notion of discrete or columnar reporting several times but there was not support for this type of reporting.</p> | <p><u>Reporting of Disclosure Organizations Financial Information</u><br/>The FASAB has provided that the financial information for disclosure organizations should be disclosed on an individual basis to the reader. The exposure draft’s discussion, however, does not recognize the essential nature of the information available on such organizations. For example, information that can be presented in the form of a financial statement, and is “essential to understanding the financial position and results of operations” of the organization should be presented in that form, while information that helps in understanding such information should be presented in note form. Therefore, would it not be preferable to include the financial statement information about such organizations in one or more combining statements, with notes structured, as appropriate for each separately presented organizations. Structurally, this would be similar to how “discretely presented component units” are reported for state and local governments—even to the point of presenting the consolidation of all “disclosure organizations” in a single column beside the sum of all of the “consolidation entities.” We think that such a presentation would be more readily understood by stakeholders than what might otherwise be a string of separate</p> |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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|  | notes for each disclosure organizations. This would enhance the reader's ability to understand the full financial impacts.   |
| <p>AGA FMSB #31</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>   | <p>Comments on Alternative Views in the Basis for Conclusion Section</p> <p>We have read the alternative views contained in paragraph A89 through A93 and we find that the views presented by Mr. Steinberg regarding the case of receivership, conservatorships and interventions are compelling. Although we are disappointed that the FASAB chose to omit these from the current project, we agree with Mr. Steinberg that these issues must be considered in the risk assumed project. In our letter of comments regarding the FMSB's latest three year plan, we had suggested that these projects be combined or operated on parallel tracks as there are interrelated issues that must be considered.</p>  |
| <p>#30 Intelligence Community</p> <p><b>Open- Editorial, structural, or clarified in BfC</b></p> <p><i>Staff did not believe necessary to clarify further in the standard.</i></p> | <p><b><u>Section: PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR</u></b></p> <p><b>Page 14, Line 21</b></p> <p>Suggestion: Recommend removing footnote 10 and including this verbiage directly in line 21.</p> <p>Rational: Provide more clarity without requiring the reader to refer to footnotes, similar to verbiage in line 24 on page 15.</p> <p><b><u>Section: SITUATION WHERE CONTROL DOES NOT EXIST</u></b></p> <p><b>Page 17, Line 32</b></p> <p>Suggestion: (U) A blanket statement that control does not exist when the organization is economically dependent upon the federal government is unrealistic to a reasonable person; (i.e., the "power of the purse") the presumption should be that there is an ability to influence/control the behaviors of the recipients even when not specifically called out in an agreement -- though it might not be true in all cases and reasonable judgment would be required.</p> <p><b><u>Section: RECEIVERSHIPS AND CONSERATORSHIPS</u></b></p> <p><b>Page 21, Line 49</b></p> <p>Suggestion: The Basis for Conclusions related to receiverships and conservatorships appears to provide a judgmental conclusion on how to report these organizations, which is not consistent with terminology reflected in the body of the exposure draft.</p> <p>Rational: Line 49 indicates that "Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure organizations." However, in Appendix A, line A48, the basis for conclusion indicates "... such controlled or owned organizations would be disclosure organizations...."</p> <p><b><u>Sections: RECEIVERSHIPS AND CONSERVATORSHIPS &amp; FEDERAL GOVERNMENT INTERVENTION ACTIONS RESULTING IN CONTROL OR OWNERSHIP</u></b></p> |

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|  | <p style="text-align: center;"><b>Page 21, Lines 49-53</b></p> <p>Suggestion: Segregating receiverships and conservatorships separately from other Federal Government Intervention Actions Resulting in Control or Ownership may not be necessary. Information included in lines 50-53 could be applied to receiverships and conservatorships to conclude on disclosure requirements.</p> <p>Rational: Note 20 indicates the difference between the two is that receivership and conservatorship activities are considered part of the mission of the federal reporting entity. However, agencies such as TARP were established with the mission to temporarily oversee/assist financial institutions back to safe and sound conditions as part of an economic intervention activity, similar to FHFA's mission to temporarily assist Fannie Mae/Freddie Mac (referred to as receiverships and conservatorships).</p> <p><b><u>Section: SCOPE OF BUDGET PROCESS</u></b></p> <p style="text-align: center;"><b>Page 23, Line 58.b</b></p> <p>Suggestion: Recommend editing - b. inclusion in an organization's published organization chart -- may be an indicator but not necessarily evidence of a particular type of relationship; there is no substance to that particular criteria upon which to base a decision.</p> <p><b><u>Section: ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY</u></b></p> <p style="text-align: center;"><b>Page 24, Line 60</b></p> <p>Suggestion: Line 60 appears to have an error. Instead of: "If a disclosure organization has not been administratively assigned to a consolidation entity...." should it state: "If a disclosure organization has not been administratively assigned to a component reporting entity...."</p> <p>Rationale: Section 58-60 refers to accountability for component reporting entities.</p> |
| <p>#30 Intelligence Community</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p> | <p><b><u>Section: GPFFR CONSOLIDATION AND DISCLOSURE</u></b></p> <p style="text-align: center;"><b>Page 26, Page 66</b></p> <p>Suggestion: Disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate. Recommend that the reporting entity convert any consolidation entity balances to either the FASB or FASAB standards used by the reporting entity.</p> <p>Rationale: While this provision in line 66 may have been included to address cost/benefit concerns, two of the six qualitative characteristics for developing accounting standards discussed in SFFAC No. 1 and SFFAC No. 4 are consistency and comparability. Consolidating balances from two or more organizations without regard to FASAB and FASB differences does not represent consistent application of accounting principles in a GPFFR.</p> <p style="text-align: center;"><b>Page 26, Line 66</b></p> <p>Suggestion: Disagree that any component reporting entity that publishes financial reports pursuant to FASB</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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Editorial comments considered w/ June Draft

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|   | <p>standards should be required to disclosure intragovernmental amounts measured in accordance with FASAB standards to facilitate elimination entries for the government-wide financial statements</p> <p>Rationale: Federal reporting components that use FASB standards are already required by Treasury to prepare GFRS (closing package) financial statements which presents the necessary converted intragovernmental elimination information required for the government-wide financial statements. This additional disclosure may be confusing and/or not useful to the reporting entity's wider GPFFR audience.</p>  |
| <p>#30 Intelligence Community</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>  | <p><b><u>Section: DISCLOSURE REQUIREMENTS</u></b></p> <p><b>Page 28, Lines 72.c, 73.e, 73.i, 73.j</b></p> <p>Suggestion: Disagree that disclosures should include the objective of providing a description of future exposures. Recommend considering future exposure information as part of the risk assumed project (Required Supplementary Information).</p> <p>Rationale: The disclosures (footnotes) are part of the audited financial statements. It may be difficult for reporting entities to make such determinations and defend them during the audit process as this information may be judgmental and/or speculative in nature.</p>  |
| <p>#30 Intelligence Community</p> <p><b><u>7. Central Bank – Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>                                | <p><b><u>Section: MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM</u></b></p> <p><b>Page 30, Line 77</b></p> <p>Suggestion: Minimum Disclosures regarding the Central Banking System -- should include significant types of transactions and balances related to exchanges between the central banking system and foreign entities</p>  |
| <p># 36 Treasury CFO</p> <p>While staff was directed to incorporate clarifications, the Board appeared to want to maintain the overall structure of the proposal.</p> | <p>In addition to the responses above, Treasury has one additional comment to the ED for consideration. In general, we found the ED difficult to read which we believe is primarily due to how the provisions of the standard are organized. Discussion of the three inclusion principles seems to apply only for purposes of the government-wide GPFFR, while the characteristics for distinguishing between a consolidation and disclosure entity seem to apply to both the government-wide and component reporting entities' GPFFR. We recommend that the Board reorganize this ED by focusing its discussion on the three inclusion principles and then the characteristics for distinguishing between a consolidation and disclosure entity, and that these guidelines be applicable to both the government-wide and component reporting entities' GPFFR.</p> |
| <p># 36 Treasury CFO</p> <p><b><u>2. Misleading to</u></b></p>  | <p>Move "Misleading to Exclude" after "Related Parties". The current placement is not appropriate for two reasons: (1) the question of whether a related party is misleading to exclude is not addressed, and (2) current placement would</p>  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

Closed

Editorial comments considered w/ June Draft

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| <u>Exclude –Dec 2013</u>  | indicate that all related party entities could be excluded and not be misleading.   |
| <b>Listing of Board Member Punch List &amp; Other Comments</b>              |   |
| <b>Reger Comments</b>   |   |
| <b>2.Component Reporting Issues- March 2014</b><br><b>Also EDITORIAL</b>    | We need clarification around use of Misleading to Exclude vs. Misleading to Include -- the subsection heading prior to Par 61 is titled “Misleading To Exclude and/or Misleading to Include – which seems to refer specifically to component entities.  |
| <b>2. Misleading to Exclude –Dec 2013</b>                                   | However, the Subsection heading prior to Par 35 references only “Misleading to Exclude”. This seemingly broader-scoped section should also reference a Misleading to Include provision to be consistent with Par 61. One way or the other we need to make these provisions clearer to the reader.   |
| <b>1. In the Budget – Dec 2013</b><br><b>1a. In the Budget – March 2014</b> | 22. 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 unless it is a non-federal organization ( <b>needs definition – things such as would fail the tests in part 2, do not rely on federal authority to collect funds, would exist without any ongoing federal action or intervention</b> )              |
| <b>5. “Temporary”- Dec 2013</b><br><b>1b. “Temporary”- March 2014</b>       | Temporary issue- 23. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets 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 organization in the government-wide GPFFR <u>unless that ownership is temporary (need some definition) in nature or an intervention (again, need some definition).</u> |
| Central agencies/guidance   | We should consider the idea of asking agencies to identify any entities either currently reporting or currently not reporting which may be impacted by the change in rule.  |
| Central agencies/guidance   | We should consider saying something about how the annual cycle will exist to identify emerging entities against the standard  |
| <b>4. Organizations Partially in the</b>                                    | How do we want to handle Smithsonian and other organizations with divided revenue streams?  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| <b><u>Budget-Museums-<br/>March 2014</u></b>  |  |
| <b><u>1.Organizations<br/>Partially in the<br/>Budget-Museums-<br/>April 2014</u></b>   |  |
| <b><u>1. In the Budget-<br/>Dec 2013</u></b><br><br><b><u>1a. In the Budget –<br/>March 2014</u></b>  | Specifically remove state and municipal governments unless they are no longer going concerns and their existence defaults to the federal government  |
| <b><u>3. Applicability to<br/>Judicial and<br/>Legislative<br/>Branches- Dec<br/>2013</u></b>   | Can we specifically add the other two branches of the government? If not, how do we emphatically make these the whole federal government statements?   |
| <b><u>7. Central Bank-<br/>Dec 2013</u></b><br><br><b><u>Tab B2 Central<br/>Bank- March 2014</u></b>  | FRB – what outstanding issues do we have??   |
| Guidance is provided for disclosure organizations and it appears that Treasury and professional practice has worked in past for consolidated entities or that was what the Board believed | Non – 9.30 year end filers. Should we insist they provide information current to our report and what assurance would they have to provide over that data and what increased value does that provide for the costs? What are the costs? |
| <b><u>6. FASB Based<br/>Information- Dec</u></b>  | FASAB/FASB/GASB/Other basis – we should revisit the footnote disclosure to make sure it is clear to us and everyone else.  |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| <b>2013</b>   |  |
| <b>3.Related Party- April 2014</b>  | It is difficult to differentiate a disclosure entity from a related party                        |
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|   | <b>Showalter Comments</b>  |
| While staff was directed to incorporate clarifications where appropriate, the Board appeared to want to maintain the overall structure of the proposal. | Revisit organization of standard   |
| <b>4. Term for Disclosure Organization-Dec 2013</b>   | Terms- Consolidation entities vs disclosure organization   |
| <b>3. Related Parties- April 2014</b>   | Another name for Related Parties   |
| <b>Open- Editorial, also somewhat addressed “In the Budget” but staff plans to make additional changes.</b>   | Par 28. Make clear where states are on continuum. Mazur comment<br><i>Change made to par. 29</i> |
| <b>1. In the Budget- Dec 2013</b><br><b>1a. In the Budget – March 2014</b>  | Par. 22 Clarify items in the budget that should be excluded= Fees                                |
| <b>2. Misleading to Exclude –Dec 2013</b>   | Par. 35 -36 and  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <p><b><u>2.Component Reporting Issues- March 2014</u></b></p> <p><b><u>2.Component Reporting Issues- Misleading to Include Provisions April 2014</u></b></p>  | <p>Par. 61-63 Should we include Misleading to Exclude (include) provisions?</p>   |
| <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>  | <p>Par. 66 Need to report intragovernmental amount? Is par 66 clear about what is required?</p>   |
| <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>  | <p>Par. 69c Is the factor necessary?</p> <p>Par 73 How to make examples don't appear to be requirements- See KPMG response</p> <p>Par 73i Should we limit gain or loss to events that already happened?</p> |
| <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>   | <p>Par 77 Applicable to Government-wide vs component</p>  |
| <p><b><u>3. Related Party- April 2014</u></b></p>   | <p>Par. 79 necessary?</p>   |
| <p>While staff was directed to incorporate clarifications where appropriate, the Board agreed to maintain the inclusion principles. Staff was directed to consider moving "in the budget" into control- staff did this as part of 1. In the</p> | <p>Par 21 consolidate principles? Relationship with/to related parties</p>  |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| Budget – Dec 2013.  |  |
| <b>5. “Temporary” – Dec 2013</b><br><b>1b. “Temporary” – March 2014</b>   | Temporary Control defined  |
| <b>5. Effective Date- April 2014</b>  | Effective date & early implementation  |
| <b>7. Other Organizations- April 2014</b>   | FFRDCs   |
| Board has not indicated an approach other than establishing the objectives & examples for disclosure organizations. Need to confirm with Board. | Should disclosures be different for different types of disclosure organizations?   |
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|   | <b>Steinberg Comments</b>  |
| <b>3. Applicability to Judicial and Legislative Branches- Dec 2013</b>  | Applicability to the three branches of government  |
| <b>1. In the Budget- Dec 2013</b><br><b>1a. In the Budget – March 2014</b>  | Inclusion principles-<br>“In the budget versus “controlled by the budget.” Ability to grant or withhold tax-exempt status. Possibility of adding “who do assets and liabilities belong to” as a factor, per the SECs comment |
| <b>4. “Temporary” – Dec 2013</b>  | Status of other than temporary   |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

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| Closed | Editorial comments considered w/ June Draft |
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| <b><u>1b. "Temporary" – March 2014</u></b>  | Indication that temporary is now other than temporary (e. g., legislative or administrative action  |
| <b><u>1. In the Budget- Dec 2013</u></b><br><b><u>1a. In the Budget – March 2014</u></b>  | Limitations of phrase "federal financial assistance," particularly when defined with Single Audit Act   |
| Board voted not to pursue alternative view.   | Receiverships, conservatorships, intervention entities  |
| <b><u>7. Central Bank- Dec 2013</u></b><br><b><u>Tab B2 Central Bank- March 2014</u></b>  | Central banking system  |
| <b><u>2.Component Reporting Issues- March 2014</u></b><br><b><u>2.Component Reporting Issues- Misleading to Include provisions April 2014</u></b> | Misleading to exclude-Explanation in Basis for Conclusions<br>Deletion of last phrase in paragraph 62, per the DOL letter   |
| <b><u>7. Other Organizations- April 2014</u></b>  | Special situations<br>General fund<br>District of Columbia and territories<br>Consumer Finance Protection Board<br>Entities financed in part by donations - Clarification of inclusion or consolidation<br>Build on the definitions of Congressionally Chartered Organizations contained in the GAO report included with the August meeting clippings<br>Recognition of impact of an implied guarantee (Pension Benefits Guarantee Corporation<br>Impact on entities such as National Railroad Retirement Investment Trust) |

**Appendix B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**Editorial comments considered w/ June Draft**

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| <p>Board has not indicated an approach other than establishing the objectives &amp; examples for disclosure organizations. Need to confirm with Board.</p> | <p>Consolidation or disclosure<br/>                 Desirability of narrowing disclosures to those germane to the type of disclosure organization FFRDCs<br/>                 Distinguishing characteristics for inclusion and exclusion</p>  |
| <p><b>4. Term for Disclosure Organization-Dec 2013</b></p>   | <p>Name—Disclosure organization or Non-consolidated entity</p>  |
| <p><b>6. FASB Based Information- Dec 2013</b></p>  | <p>FASB-based entities<br/>                 Disclosure of intragovernmental amounts in footnotes or other means (i. e., closing package)<br/>                 Consolidation issues<br/>                 Statement of Budgetary Resources<br/>                 Reconciliation of costs to budget</p>   |
| <p><b>3. Related Parties- April 2014</b></p>   | <p>Related parties<br/>                 Advisability of adopting a different term to assure distinction between possible on transactions versus ability to influence financial and operating decisions<br/>                 Status of advisory boards<br/>                 Confusion about possible inclusion of state components such as Unemployment Insurance Fund</p> |
| <p><b>7. Other Organizations – April 2014</b></p>  | <p>Ability to depart from principles when detrimental to national security</p>  |
| <p><b>4. SFFAC 2 Amendments- April 2014</b></p>  | <p>Decision to modify or completely revise SFFAC 2</p>  |
| <p><b>Open- Editorial,</b></p>   | <p>In reading the materials for this week’s meeting, I was struck by the fact that the terms “consolidated” and</p>   |

Appendix B STAFF DISPOSITION OF COMMENTS (Key:

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| <p><b>structural, or clarified in BfC</b></p> <p><i>The Board modified much of this language with the temporary discussion. Staff added clarifying language where deemed appropriate.</i></p> | <p>“disclosure” are being used in two contexts. The first context is to distinguish among types of entities. The second context is to distinguish between the two ways the financial information is to be presented.</p> <p>The rationale for whether an entity is a consolidated entity or a disclosure entity (the first context), is explained in paragraphs 38 and 41. However, the text, as it is presently drafted, states <u>how</u> the information should be presented as consolidated (paragraph 64) or disclosed (paragraphs 67-72) without providing a good rationale for using one method versus the other. That is why I suggested preceding paragraph 64 with an explanation of the two ways of disclosing financial information and the implications of each. I have drafted the following as a possible way of doing it.</p> <p>There are various ways to present financial information. Consolidation entails presenting the <a href="#">assets</a>, <a href="#">liabilities</a>, position, <a href="#">revenues</a>, and expenditures of an organization and all of the components it owns and/or controls as those of a single <a href="#">entity</a>. It provides the best understanding of the position and results of the organization as a whole. On the other hand, because the information is aggregated at such a high level, users do not have the opportunity to discern the details of what has and is happening financially within the organization, and particularly when transactions and balances among components are eliminated.</p> <p>Another way to present financial information is disclosure. Disclosure uses footnotes to present 1) desired information that is otherwise concealed in the consolidated totals and 2) additional information needed for a full and fair understanding of the organization’s financial position and results. It can also be used, when appropriate to disclose financial and other information concerning organizations with whom the relationship with the reporting entity is other than ownership and/or control. Using disclosure rather than consolidation to present financial information will, in some instances, provide a better understanding of an individual entity’s financial matters, and thus better meet Federal financial reporting objectives</p> <p>Incidentally, despite our monumental efforts, there could well be persons on the Board, and certainly in the public, who still believe the Federal Reserve System should be consolidated, or at least that the Exposure Draft was not sufficiently clear to lead to a disclosure conclusion for the Federal Reserve System. These two paragraphs could be used as a foundation for why disclosure is better for the central bank rather than consolidation.</p> |
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