



April 15, 2010

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Federal Entity-TAB C2¹**

MEETING OBJECTIVE

The primary objective for the February Board meeting is to discuss issue areas related to the federal entity project and staff recommendations that will enable staff to continue finalizing a Draft ED. Staff will seek Board member's comments on the questions listed in the Staff Paper.

BRIEFING MATERIAL

This transmittal memorandum includes a Staff Issue Paper presenting issues and recommendations. Questions for the Board are specifically on pages 5, 7, 11, 15, 17, and 19. The Draft ED *U. S. Government Reporting Entity* is attached for your reference and to allow issues and draft language to be considered in the context of the entire ED. However, the main focus of the session will be on the issues and questions in the Staff Issue Paper.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

At the February 2010 meeting, the Board discussed issues related to the conclusive principle-- Issue 1: Conclusive really just means in the Budget, Issue 2: Exceptions when applying the conclusive principle, and Issue 3: Entities partially on budget. The minutes provide detail of the discussion, but staff believes the Board agreed on matters related to Issue 1. So, there were no actions for staff relating to Issue 1.

As for Issue 2, the Board came to a consensus that the best way to address exceptions that may occur at the component entity level would be for the proposed Statement to take a two tier approach. The two tier approach includes defining the government-wide entity as the first tier using both the conclusive and indicative principles. The second tier includes defining component reporting entities using only indicative principles and criteria (inclusion in the budget would be an indicative criterion at the component reporting entity level).

As for Issue 3, the Board deliberations did not result in a consensus on how to resolve the issue regarding entities that are partially in the budget. Instead, the Board directed staff to consider the comments and discussion, and determine options for further consideration.

Staff also observed there was some question regarding other parts of the draft proposal, so staff will ensure the entire ED will be included in future Board materials for reference. This will allow issues to be considered in the context of the entire ED and reference to other sections as needed.

In addition to finalizing issues presented at the February Board meeting, the Board will be considering additional issues to be resolved as staff works toward finalizing the Draft ED.

If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov.

Staff Issue Paper

Issue: Terminology & Two tier approach

At the February meeting, the Board discussed the issue if there should be exceptions when applying the conclusive principle. As previously drafted, if an entity met the conclusive principle, no further assessment was required; and the entity was considered within the boundaries of the federal reporting entity (U.S. government reporting entity and the component reporting entity with which it appears in the budget).

The issue specifically dealt with if there were instances where an entity meeting the conclusive principle should not be included in the component reporting entity with which it appears in the budget? The example discussed at the meeting was the U.S. Department of Labor (DOL) receiving a waiver from consolidating the Pension Benefit Guaranty Corporation (PBGC). Based on discussions, it appears this waiver was approved due to the nature of the relationship between PBGC and DOL.

The Board came to a consensus that the best way to address this issue would be to take a two tier approach. The two tier approach includes defining the federal entity (government-wide entity) as the first tier which includes both the conclusive and indicative principles. The second tier includes defining component reporting entities which would only include indicative criteria (inclusion in the budget would be an indicative criterion at the component reporting entity level).

Along with confirmation of the approach, staff would also like to ensure agreement with the terms selected for each tier. Staff recommends the two tiers to be the “U.S. government reporting entity” and component reporting entity,” which are both federal reporting entities. The Draft ED provides the following definitions:

Federal Reporting Entity A federal reporting entity is a federal entity² that issues a General Purpose Federal Financial Report (GPFFR). It issues GPFFR because either there is a statutory or administrative requirement to prepare them or it chooses to prepare them. SFFAC 2 explains for an entity to be a reporting entity,³ it would need to meet all of the following criteria:

- a. 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.
- b. The entity’s scope is such that its financial statements would provide a meaningful representation of operations and financial condition.

² The term “entity” is a general term used to refer to any legal, administrative or organizational structure or unit.

³ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

c. 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.

The term “federal reporting entities” is used broadly to refer to all federal reporting entities which would include the U.S. government reporting entity and component reporting entities.

U. S. Government Reporting Entity The U. S. government reporting entity is the largest federal reporting entity and encompasses all entities existing within the federal government, which include all component reporting entities within the executive, legislative, and judicial branches as well as other entities assessed to be included based on the principles and criteria established in this Statement.

Component Reporting Entity Component reporting entity is used broadly to refer to a federal reporting entity within a larger federal reporting entity that issues GPFFR. Examples of component reporting entities include entities that are part of the federal government, such as executive departments, independent agencies, and government corporations. Component reporting entities would also include sub-components (entities that are part of a larger component reporting entity⁴) that prepare GPFFR. One example is a bureau of a larger department that prepares stand alone financial reports. Other examples include commercial functions, revolving funds, and/or other accounts for which GPFFR are prepared.

Staff believes the proposed terms are most appropriate. The terms federal reporting entity and component reporting entity are widely used in a manner consistent with the definitions above. U.S. government reporting entity was selected as it appeared best to define the overall entity and is consistent with the title of the report, Financial Report of the U.S. Government. Staff also notes the terms were included in the draft ED presented at the October 2009 Board meeting and no concerns were expressed by Board members. Alternatives that staff considered include the following terms:

1. Federal Reporting Entities (Included in the Draft ED)
 - U.S. Government Reporting Entity (Included in the Draft ED)
 - Component Reporting Entity (Included in the Draft ED)
2. Federal Reporting Entities
 - Federal Government Reporting Entity
 - Component Reporting Entity
3. Federal Reporting Entities
 - Government-wide Reporting Entity
 - Component Reporting Entity

⁴ Often financial reports that present aggregations of information for organizations such as an administration or a bureau are more useful than reports at the higher component level. Such reports can provide a better understanding of the financial results and status of the many individual organizations and programs constituting a department or major agency.

QUESTION for the Board-

Does the Board agree with the terms presented in the Draft ED (# 1 above) or is there a preference for an alternative term?

In taking the two tier approach, staff notes there will be many similarities and some differences between the final indicative principles used for the component reporting entities (versus the U.S. government reporting entity). For example, it was already agreed that being included in the budget will be an indicative principle for the component reporting entities whereas it is a conclusive principle for the U.S. government reporting entity. There is also the potential for the consolidation criteria to be different. For example, the U.S. government reporting entity may take a broader view and place emphasis on the risks and rewards whereas the component reporting entity may focus more on accountability.

Although there will be some revisions to the indicative principles to reflect their application to a component reporting entity, there will be repetition between the two sets of principles. Staff would like the Board to decide whether it prefers to keep both the U.S. government reporting entity and component reporting entities within one proposed Statement, or separate the two topics. If separated, the component reporting entities would be addressed in a proposed Statement that would be issued as an ED following completion of deliberations and consideration of the comments received on the U.S. government reporting entity Statement.

This question was not posed before, because originally we intended that the same principles would be used for the U.S. government reporting entity and the component reporting entities. However, as potential differences were noted and feedback suggested it may be confusing for principles to apply to both overall, the Board agreed a two tier approach would be necessary. Therefore, staff would like to determine how the two tiers would be addressed, within one proposed Statement or separate Statements.

Staff notes the Draft ED has been restructured and now it only addresses the U.S. government reporting entity with a placeholder noting where the guidance for the component reporting entities would begin. In reviewing the Draft ED, staff notes it is a lengthy document, without the component entity guidance. However, staff believes there would be advantages with both approaches (including both in same Statement or issuing separate Statements), so staff would like to obtain the Board's views on this.

There are two options for consideration:

Option 1-Include principles for both the U.S. government reporting entity and component reporting entities within one proposed Statement (different sections for each)

Advantages-

- Similar topics of boundaries of federal reporting entities and consolidation are addressed in one document.
- Issuing the U.S. government reporting entity without addressing component reporting entities may result in continued questions regarding component entity boundaries until that Statement is released.
- May be more timely to address both in one document, both would be complete quicker when completed in one document and one due process.

Option 2-Issue separate Statements—one for the U.S. government reporting entity and one for component reporting entities

Advantages-

- ED of the U.S. government reporting entity will be issued earlier and provides input on potential issue areas or differences to consider in the component reporting entity proposal. For example, the Board may wish to use the exposure draft process of the U.S. government reporting entity ED as an opportunity to solicit volunteers to perform field tests or assessments at the component entity level.
- Board may want to address the issue of identifying reporting entities at the component reporting entity level as it wouldn't really apply to the U.S. government reporting entity. (See the next issue for discussion of the identifying reporting entities issue.)
- Differences in defining the boundaries (such as no conclusive principle at the component reporting entity level) between the U.S. government reporting entity and component reporting entities would be less confusing when in separate Statements.
- Differences in criteria for consolidation between the U.S. government reporting entity and component reporting entities would be less confusing when in separate Statements.
- Focus of the Statement is geared to either the U.S. government reporting entity or component reporting entities resulting in concise Statements for each. (Statement would get extremely long when addressing both.)
- Addressing the U.S. government reporting entity has been the main focus of the Board; therefore it appears there would be incentive to issue this earlier as many have noted the government wide is the ultimate reporting entity.

Based on considering the advantages above, staff believes it may be appropriate to issue separate Statements for the U.S. government reporting entity and component reporting entities. Staff believes separate Statements would provide the greatest clarity for reasons as noted above. As for timing of the ED on the component reporting entities—staff could begin drafting once the U.S. government reporting entity ED is released. However, the comments received on the U.S. government reporting entity ED would be considered before release of the component reporting entities ED. This would also allow the opportunity to pose certain questions regarding the component entities in the U.S. government reporting entity ED.

QUESTION for the Board-

Does the Board agree the two tier approach is best accomplished by issuing two Statements—one for the U.S. government reporting entity and one for component reporting entities?

Issue: Identifying Reporting Entities and Federal Entities Subject to FASAB

Staff would like to confirm the Board’s position on certain issues that were brought up during the February meeting. Members discussed the Statement should identify what makes an entity a ‘reporting entity.’ Members also expressed the Statement should distinguish federal reporting entities from other reporting entities, as a means of determining whether FASAB is the authoritative GAAP standard setting body for an entity.⁵

As you recall, the federal entity project began as part of the overall conceptual framework project. In the early sessions on the project, staff prepared material defining the organizational structure of the federal government and how this relates to reporting entities. However, staff notes the Board didn’t believe it was necessary at that time to address these types of concepts and believed the concepts developed in SFFAC 2 would remain, unless there was a conflict with the standards developed in the project.

The Board agreed at that time the focus of the project would be on standards for the boundaries of reporting entities and consolidation. Therefore, staff has focused efforts on developing the standards. Based on these decisions, staff didn’t believe the standards would identify reporting entities or define criteria that made an entity a reporting entity. Instead, staff believed there was agreement that a reporting entity is self purported—an entity that issues reports is a reporting entity. Staff notes that an entity may be required to report or chose to report.

⁵ Currently, SFFAC 2 is relied upon to resolve questions of whether an entity is “federal” or not. In SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the Board indicated that SFFAC 2 “provides criteria for identifying federal reporting entities. In addition, the Board is currently developing standards defining the federal reporting entity.”

Therefore, consistent with the Board’s decision to keep SFFAC 2 in place with the exception of areas that must be amended; staff notes the guidance on Identifying Reporting Entities in SFFAC 2 would remain and has been incorporated in the Draft ED through the footnote reference.

As noted, a federal reporting entity is defined in the Draft ED as follows:

Federal Reporting Entity A federal reporting entity is a federal entity⁶ that issues a General Purpose Federal Financial Report (GPFFR). It issues GPFFR because either there is a statutory or administrative requirement to prepare them or it chooses to prepare them. SFFAC 2 explains for an entity to be a reporting entity,⁷ it would need to meet all of the following criteria:

- a. 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.
- b. The entity’s scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- c. 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.

The term “federal reporting entities” is used broadly to refer to all federal reporting entities which would include the U.S. government reporting entity and component reporting entities.

The Draft ED does not define which entities are reporting entities or state which are required to report. This is consistent with SFFAC 2, par. 4 that states “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.”

SFFAC 2 also provides the following discussion on identifying reporting entities, which staff referenced in the definition of federal reporting entity:

Identifying the Reporting Entity 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

⁶ The term “entity” is a general term used to refer to any legal, administrative or organizational structure or unit.

⁷ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.

- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
- The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

30. Budget accounts, in and of themselves, do not meet the criteria in the preceding paragraph and, therefore, would not be considered a reporting entity for the purposes of issuing general purpose financial statements. Also, the size and scope of the budget accounts across all government agencies lack sufficient consistency for them to be universally considered as the reporting entity. Similarly, programs generally do not meet the criteria in paragraph 29 and, therefore, would not be a considered a reporting entity that prepares general purpose financial statements.

31. On the other hand, organizations, and particularly larger organizations, meet the criteria in paragraph 29. While the occasional overlap of programs and budget accounts among more than one organizational unit could complicate financial reporting, the association of data with the responsibility centers, revenue centers, profit centers, cost centers, etc. which managers typically use for organizing and operating permit the following:

- aggregating information for not only the organization (and suborganizations), but also for one or more of the programs performed by the organization, and one or more of the budget accounts for which the organization is responsible, and
- the subsequent arraying of the information not only by organization, but also by sub-organization, program, and/or budget accounts.

32. This approach to defining the appropriate reporting entities in the Federal Government supports establishment of accountability in the organizations (and suborganizations) while still enabling them to provide information pertaining to their programs.

33. Although a reporting entity might not control all the budget accounts used to finance one or more of the programs it administers, any revenues attributable to or costs incurred on behalf of the programs it administers should be associated with that reporting entity. This notion holds true regardless of whether the reporting entity maintains personnel on a payroll.

34. The departments and major independent agencies are organizational units and therefore would be the primary reporting entities. However, in many instances, financial statements that present aggregations of information into suborganization entities, i.e., bureaus, administrations, or agencies, may be more useful than statements that present only aggregations into organizational entities. The former can provide a better understanding of the financial results and status of the many individual suborganizations and programs constituting a department or major independent agency. They can reveal instances where programs are carried out by several suborganizations within the department or major independent agency.

35. Similar to other budget accounts, trust funds, special funds, and revolving funds are usually administered by a single organization. For financial reporting purposes, the organization would be the reporting entity; the trust fund or revolving fund would be a component of the organization that administers the fund in the same manner that a suborganization or other type of budget account is a component of the organization. This would not preclude separate reporting for the trust fund, special fund, or revolving fund by the managing organization, nor would it

preclude disclosure of trust fund, special fund, or revolving fund information within the organization's report when there is sufficient interest.⁸

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 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.

As for distinguishing which entities are federal and thus subject to FASAB GAAP, staff requests additional information on what might be expected. Naturally, once the U.S. government reporting entity is defined, everything that falls under it would be "federal." Staff believes that this resolves the question of which US GAAP applies to an entity. However, as you know, certain entities that are federal as defined in SFFAC 2 continue to prepare financial reports by applying FASB standards. Such practice is in conformance with SFFAS 34—which is federal GAAP. Staff did not expect this Statement to resolve any concerns regarding continuation of that practice—instead a separate (but not priority) project will address that practice.

Staff believes that the following paragraph contained in the Scope section of the Draft ED of the Proposed Statement is sufficient:

This Statement applies to federal entities that prepare general purpose federal financial reports (GPFRR) in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles*,

⁸ 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, or in the case of multiple responsible entities, the entity with the preponderance of fund activity, will report all assets, liabilities, revenues, and expense of the fund, notwithstanding the fact that another entity has custodial responsibility for the assets.

Including the Application of Standards Issued by the Financial Accounting Standards Board.

QUESTION for the Board-

Does the Board believe the issues of Identifying Reporting Entities and Federal Entities need to be addressed further, beyond what is included in the Draft ED? Staff notes if the Board decides to issue two separate Statements—one for the U.S. government reporting entity and one for component reporting entities, staff believes the component reporting entity Statement would be the appropriate place to address or elaborate upon identifying reporting entities.

Issue: Clarification that all accounts for any entity should be considered in the conclusive principle

At the February meeting a member explained that the *Federal Programs by Agency and Account* may not include financing accounts, such as federal credit reform financing accounts but the Draft ED should provide that those should be included. Staff agreed to clarify the language to explicitly state if the organizational unit controls the financing account, then the financing accounts should be included as well.

Staff notes that SFFAC 2, *Entity and Display*, discusses budget accounts and that often there are multiple budget accounts that relate to organizations. See excerpt language from SFFAC 2 on pages 8-10 of this memo for the specific language.

Staff proposes the following language for the Draft ED:

An entity (including any revenues attributable to or costs incurred on behalf of the programs administered by the entity^[FN 1]) listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule entitled *Federal Programs by Agency and Account* is within the boundaries of the U.S. government reporting entity.

^[FN 1] As elaborated in SFFAC 2, *Entity and Display*, par. 11-28, the federal government can be viewed from an organization, budget and program perspective. Organizations (i.e., entities) administer programs that are financed by budget accounts. Par. 33 of SFFAC 2 explains any revenues attributable to or costs incurred on behalf of the programs administered by an organization should be associated with that reporting entity. For example, an entity should include all programs and budget accounts associated with and under the control of the entity (including off-budget accounts and financing accounts that may not be specifically included in the schedule.)

QUESTION for the Board-

Does the Board agree with staff's proposed language?

Issue: Entities partially in the budget

At the February Board meeting, the Board discussed entities that are partially in the budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. (The Smithsonian example was discussed.) This issue relates to whether portions of entities--only the budgeted portion of these types of entities--should be included in the US government-wide financial statements?

The Board discussed several options presented by staff to address this issue. However, the Board deliberations did not result in a consensus on how to resolve the issue with entities that were partially in the budget. Instead, the Board directed staff to consider the comments and discussion, and determine options for further consideration

As you recall, staff options included 1-3 (note February's briefing materials contained suggested language along with advantages and disadvantages for each option), with an alternative option 4 that would separate these types of entities.

Option 1--Require the entity as a whole to be included based on the Conclusive Principle.

Option 2--Require only 'federal' or budgeted amounts to be included.

Option 3--Require budgeted amounts to be included based on the Conclusive Principle. Explicitly state other funds should be assessed against the Indicative Principles and Criteria for determining if within the boundaries of federal reporting entities.

Option 4 ALTERNATIVE APPROACH—Provide Specific Disclosures for these types of Entities

As noted, there wasn't a consensus among Board members on this issue. However, as the minutes detail, it appeared there were a few points that most members agreed on:

- An entity should not be divided; therefore, the status quo should change as presently only the federal portion is consolidated and there are no disclosures in the government-wide report regarding the entity's consolidated operations (i.e., non-federal funds are omitted entirely). This allowed staff to remove Option 2 from further consideration.
- There is some level of control over these types of entities, yet there are differing views on the extent of that control and there are restrictions on assets and donated funds.
- There are on-going relationships with these types of entities and they should be included in some way in the report, but the appropriate display and disclosure are the main questions.
- There appeared to be support for looking to the indicative principles for clarification on how the entities should be presented, yet it was uncertain if the Board would want to present a portion of an entity consolidated if the assessment

of the indicative principles led to something other than consolidation. This is similar to Option 3 presented in February.

- Several Board members expressed interest in the alternative approach, because these do appear to be a unique type of entity but believed language should be drafted so it could be considered further.

Staff would also like to point out that depending upon the Board's decision regarding the previous issue (*Clarification that all accounts for any entity should be considered in the conclusive principle*) one approach would be that the additional language "An entity including any revenues attributable to or costs incurred on behalf of the programs administered by the entity" would also address this issue. However, the Board may still wish to add clarification on this issue or treat these as a unique type of entity.

After considering these points, the options are as follows:

Option 1--Require the entity as a whole to be included based on the Conclusive Principle. This is the most straight forward application of the Conclusive Principle. The entity would be consolidated in the U.S. government reporting entity. However, although the entity is subject to consolidation, the preparer would still work through existing asset and liability standards as they apply to determine if the trust funds qualify as assets and liabilities of the federal government.

Proposed language:

Certain entities may be partially in the budget and receive funding from other sources (such as donations) that are not included in the budget. For example, certain funding or activities for a federal reporting entity may be excluded by law or may not meet OMB's criteria for inclusion in the budget.^[FN 1] However, accountability is required and the federal entity as a whole should be considered within the boundaries of the federal reporting entity.

^{FN 1}-For example, a museum may receive additional funding from non-federal sources (donations or endowment trust funds) that are not included in the budget because trust funds are considered 'non-budgetary' and not subjected to the budgetary constraints inherent in being included in the budget. Clearly, the museum is still accountable for the handling of appropriations as well as the non-budgetary trust funds for the intended purposes. Application of existing standards would determine if the trust funds are assets and liabilities of the federal government.

This option is likely to result in consolidation⁹ and this has raised two concerns—first, that donated funds are not available for general government use and full consolidation may be misleading; second, that such entities apply FASB standards when accounting for donated funds (raising additional consolidation issues). If this option is preferred, staff believes the first concern may be mitigated if donated funds qualify as earmarked funds (in which case, the reporting would be similar to FASB's restricted net asset provisions) and federal reporting is currently designed to reveal that such funds are unavailable for general use. The second concern is to be addressed in an ongoing project.

⁹ Staff has not thoroughly evaluated donated funds against the criteria for fiduciary funds but believes at least some donated funds (particularly those not subject to restrictions) would not qualify as "fiduciary" and would be reported as assets.

Option 2-- Require entities partially in the budget to be assessed against the Indicative Principles and Criteria for determining presentation and disclosure.

Proposed language:

Certain entities may be partially in the budget and receive funding from other sources (such as donations) that are not included in the budget. For example, certain funding or activities for a federal reporting entity may be excluded by law or may not meet OMB's criteria for inclusion in the budget.^[FN 1] In these cases, governance of the entity's non-federally-funded operations should be assessed against the indicative principles to determine if they are within the boundaries of the U.S. government reporting entity.

^{FN 1}-For example, a museum may receive additional funding from non-federal sources (donations or endowment trust funds) that are not included in the budget.

This option is also likely to result in consolidation and the discussion under Option 1 also applies to this option.

Option 3—Include Separate Section in Draft ED-- Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations

Proposed language that would be under Conclusive Principle section of the Draft ED:

Certain entities may be partially in the budget and receive funding from other sources (such as donations) that are not included in the budget.^[FN 1] Eleemosynary Entities that are dependent on or supported by charity in addition to federal government funding are unique and discussed in the section entitled "Eleemosynary Entities" under U.S. Government Reporting Entity Consolidation and Disclosure Requirements.

^{FN 1}-For example, a museum may receive additional funding from non-federal sources (donations or endowment trust funds) that are not included in the budget.

Proposed language for Eleemosynary Entities in the Draft ED:

Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations

Eleemosynary Entities are dependent upon or supported by contributions or charity, although they may receive some funding from the federal government. Examples would include the various visual and performing arts organizations.

The federal government's relationship is on-going and often includes various degrees of control, yet the organizations are reliant upon donations and support with the understanding it will be used for the designated purposes (and not for general federal government operations). This unique relationship is based upon public trust that reinforces the need for the federal government to be accountable to the public for its stewardship of donated funds.

If the federal government provides 80% or more of the total funding, the entity should be consolidated in the U.S. government reporting entity.

If the federal government provides less than 80% of the total funding, the entity should not be consolidated in the U.S. government reporting entity. Instead the U.S. government reporting entity should disclose the:

- a. name, purpose, and description of the entity;
- b. nature of the federal government’s relationship with the entity and the amount of funding or subsidy provided to the entity, and if applicable, the percentage of ownership interest and voting;
- c. condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues.
- d. other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity.

Staff believes Option 3 allows for consolidation at appropriate times if the federal government provides significant (at least 80%) of the funding for the organizations, while providing informative disclosures describing the nature of the relationship with those entities where the federal government provides less than 80%. This would also address members concerns regarding “splitting the baby” as the entity would be either fully consolidated or when less than 80%, the funding would be reported as a subsidy and all assets and liabilities would be excluded from consolidation (but disclosures are required). Staff believes providing the informative disclosure in these cases promotes accountability and transparency regarding the relationship with the institutions.

Staff performed a cursory review¹⁰ of two of the larger institutions—the Smithsonian Institution and the U.S. Holocaust Memorial Museum. Staff noted the federal support and revenues for the Smithsonian Institution have been 53% to 60% over the past three years. Staff noted the federal support and revenues for the U.S. Holocaust Memorial Museum have been 48% to 51% over the past three years. Based on this cursory staff review, these entities would be subject to the disclosures versus full consolidation.

QUESTION for the Board-

Does the Board believe there should be a separate section for Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations?

Does the Board agree with staff’s proposed language?

¹⁰ Staff’s cursory review was simply determining a percentage of the federal funds compared to the total funds for “Operating Revenues and other Additions or Support and Revenue” reported on the Statement of Financial Activity.

Issue: Clarification of language for entities receiving subsidies that are listed in the budget

Certain members noted concern with the paragraph in the draft that addressed subsidies included in the budget and suggested that the term subsidy may need to be defined. The paragraph from the February materials at issue read:

An appropriation to a federal reporting entity that finances a subsidy to a separate entity would not alone necessitate inclusion of the recipient subsidized entity. Instead, the recipient entity should be assessed against the indicative principles of this Statement to determine if it is within the boundaries of the federal reporting entity.

Staff notes SFFAC 2 provides similar language (bolded by staff) in the conclusive criterion paragraph:

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.**

The language is proposed in the Draft ED to ensure entities that receive large grants that are specifically listed under an appropriation in the *Federal Programs by Agency and Account* schedule aren’t automatically included in the U.S. government reporting entity. Often, grants are received through programs and not necessarily listed in the budget, but there are certain situations where an organization may be listed, so it should be addressed. In these instances, the indicative principles would be used to determine if the organization is part of the federal entity and it shouldn’t be pulled in based on the conclusive principle.

For example, the National Endowment for Democracy (NED) receives grants from the Department of State. The NED is a private non-profit corporation established to encourage and strengthen the development of democratic institutions. NED is listed specifically under the Department of State in the FY 2011 *Federal Programs by Agency and Account* schedule. However, NED shouldn’t be automatically considered part of the U.S. government reporting entity (or the component entity for that matter, but this would be addressed under the component reporting entity indicative principle with the two tier approach). Instead these types of organizations should be assessed against the indicative principles.

Another example may include the Gallaudet University which receives funding from the Department of Education under the Office of Special Education and Rehabilitative Services. Gallaudet University is listed specifically under the Department of Education in the FY 2011 *Federal Programs by Agency and Account* schedule. However, if

Gallaudet is receiving a subsidy,¹¹ it shouldn't be automatically considered part of the U.S. government reporting entity (or the component entity for that matter, but this would be addressed under the component reporting entity indicative principle with the two tier approach).

As for defining the term subsidy,¹² staff notes the Board typically tries to avoid defining terms that have a dictionary meaning or that can be used generically such as this. However, a member suggested one approach is to clarify by stating that a subsidy includes federal financial assistance as defined by the Single Audit Act Amendments of 1996. The Single Audit Act Amendments of 1996 defines '*Federal financial assistance*' as 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.

Staff proposes the following revised language:

However, entities listed in the *Federal Programs by Agency and Account* that only receive a subsidy or federal financial assistance^[FN 1] would not be considered within the boundaries of the U.S. government reporting entity based on the conclusive principle.^[FN 2]

^[FN 1] As defined by the Single Audit Act Amendments of 1996 which 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.

^[FN 2] Instead, the entity, like other entities the federal government has a relationship with, would be assessed against the indicative principles to determine if it is within the boundaries of the U.S. government reporting entity.

QUESTION for the Board-

Does the Board agree with staff's proposed language?

¹¹ Staff believes it would be up to the preparer to know what entities are in fact receiving subsidies. The Statement should recognize that although these may be listed in the budget they are not automatically included based on the conclusive principle. Staff doesn't 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 that manner may or may not change.

¹² Subsidy: a grant or gift of money: as a : a sum of money formerly granted by the British Parliament to the crown and raised by special taxation b : money granted by one state to another c : a grant by a government to a private person or company to assist an enterprise deemed advantageous to the public (Merriam-Webster Online Dictionary)

Issue: Legal status of entities- clarification of 1st Indicative Principle

As you recall, the first indicative principle addresses entities that are established by the federal government. It has been noted, that statutes or regulations may establish an entity and clearly indicate its status as outside of the federal government for various reasons. This raises the question if legislation is worded so as to indicate that an entity is not a “federal” entity, can it still be considered part of the federal reporting entity for financial reporting purposes. The Statement should address whether the indicative principle should override such legislative language (which often is directed at something very different than financial reporting) in order to ensure that the federal reporting entity is complete. The Draft ED provides that entities established by the federal government are within the boundaries of the U.S. government reporting entity, regardless of the legal status.

Staff worked with FASAB legal counsel on this issue to ensure the appropriateness of the language. Based on discussions, the first indicative principle was revised slightly from “Existing as a Matter of Law within or Established by the Federal Government” to “Established by the Federal Government” to reflect all entities that are established by the federal government are considered to be within the U.S. government reporting entity and this, by definition, includes as a subset all of those entities that exist within the federal government as a matter of law. In addition, other revisions were made to clarify the indicative principle, along with making it concise.

Staff proposes the following language for the first indicative principle:

Established by the Federal Government

1. The U.S. government reporting entity encompasses all the entities established¹³ by the federal government. An entity that is established by the federal government is established under the authority of the federal government¹⁴ to fulfill a public purpose or federally related mission. Such entities may take many forms, including administrations, agencies, banks, boards, commissions, corporations, departments, foundations, and institutions and may be given any combination of powers and privileges of the federal government. It also includes entities such as government-sponsored enterprises and federally funded research and development centers (FFRDCs).
2. From among all entities established by the federal government, the U.S. government reporting entity in particular encompasses all the entities existing as a matter of law within the federal government, which comprises three branches: the legislative (Congress and its support entities); the executive (the President and executive entities); and the judicial (Supreme Court and inferior courts established by law).

¹³ Established entities would exclude federally chartered entities under Title 36 of the U.S. Code because these organizations were incorporated under state law before receiving a congressional charter (e.g., the Boy Scouts of America).

¹⁴ The phrase “under the authority of the federal government” means to be created by or at the direction of a federal statute or by a person or organization authorized under a federal statute or regulation to create them. Certain government officials may have the authority under law to establish an entity by regulation. Under this Statement, the term “by regulation” includes the act of incorporation or other official filing or notice that an entity is established.

3. Statutes or regulations that establish an entity within a branch (or within another entity) of the federal government often clearly state so.¹⁵ On the other hand, statutes or regulations may establish an entity and clearly indicate its status as outside of the federal government by stating that the entity is “private” or that it is “not an agency or instrumentality of the United States Government.”¹⁶ However, in other cases, the statutes or regulations establishing the entity may not be as clear, requiring additional analysis. Statutes or regulations may omit any express statement about the location of the entity as either within or outside the federal government.¹⁷
4. While all entities established by the federal government are within the boundaries of the U.S. government reporting entity, those entities that exist within the federal government have a closer relationship to the federal government than those outside the federal government. The nature of this relationship is relevant in assessing the presentation of the entity in the GPFFR of the U.S. government reporting entity, as detailed under Consolidation and Disclosure requirements to determine if the entity is consolidated or if an alternative presentation (discrete presentation, disclosures, or required supplementary information (RSI) is required.

QUESTION for the Board-

Does the Board agree with the revised language for the first indicative principle?

¹⁵ For example, for the executive branch, the U.S. Department of Defense is created by statute as “an executive department of the United States,” 10 U.S.C. § 111 and the United States Postal Service is “an independent establishment of the executive branch of the Government of the United States,” 39 U.S.C. § 201.

¹⁶ Congress uses and defines various terms to prescribe the applicability of laws to certain types of federally created entities. Congress defines what constitutes an agency or instrumentality of the federal government for purposes of a particular statute or set of statutes that assigns duties, liabilities, and administrative requirements and grants privileges of the federal government to individual entities or types of entities. Even in cases where Congress defines an entity as “not an agency or instrumentality” of the federal government, the entity may be considered to be part of the federal government for certain purposes.

¹⁷ For a discussion of how different types of entities may be established by the federal government, see GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: Oct. 2009).

REMAINING ISSUES TO BE ADDRESSED—Staff is in the process of finalizing these issues, and it may appear that some have been addressed in the Draft ED. However, these areas and issues are not presented for discussion. They will be finalized for discussion at the next or future Board meetings. The entire Draft ED is presented for the Board’s reference so the areas discussed may be done so in the context of the entire Draft ED.

Issue: Criteria for Consolidation and Alternative Reporting Requirements

The Statement first addresses which entities are within the boundaries of the federal reporting entity. Specifically when assessing the entities against the indicative principles and criteria, there may be entities that meet all three while others may only meet one or two. From this, there are many variations of how an entity may fall within the boundaries of the federal reporting entity, which ultimately would relate to how the entity is presented and disclosed.

Consolidation highlights the ultimate aggregation of entities is into the entire federal government; the independent federal entity controlling and financing its components. However, ensuring adequate disclosures for those entities that are not consolidated is equally important.

One consideration is using some sort of risk and rewards approach as a test to determine what would be consolidated for the government wide statement. However, this may not be appropriate at the component level, and perhaps an accountability test would be applicable.

The Board had agreed that consolidation is not the only option for presentation. The federal entity project was initiated to answer the question of what gets consolidated in the federal entity. However, in doing so one must also consider what type of reporting may be required for entities not consolidated. Therefore, when considering other reporting formats, there are questions that relate to the reporting model and what information is important for presentation and how tightly this needs to be integrated with the reporting model project. The Board agreed the two different projects that can continue simultaneously.

The Board also discussed whether alternative display options (discrete presentation) could be considered or if this was considered outside of the scope of the entity project and belonged in the reporting model project. The Board member responses did not give staff a clear direction in this area. Two members were very clear in not wanting to explore other options and believed Note Disclosure would be appropriate for entities not consolidated. Four members appeared comfortable with exploring other options for presentation. Three members suggested that there were advantages to considering other options but it should be done in the Reporting Model project.

Staff believes it was important to confirm the Board’s view because many of the other issue areas to be addressed involve determining options for disclosures or other alternatives and specifically an area where the reporting model would have relevance in perhaps some other presentation may be more appropriate over consolidation.

Planned Actions for Issue: Staff will coordinate with the Reporting Model project in all areas. However, the federal entity project will be completed much earlier. Unless otherwise directed, staff will bring all presentation alternatives for consideration and allow the Board to determine if it is outside the scope. Staff will work with the task force to develop criteria for determining when entities meeting indicative principles are consolidated and disclosures for entities that are not consolidated.

Issue: Misleading to Exclude

As proposed, the Misleading to Exclude (“Federal reporting entities should also include entities not meeting the conclusive or indicative principles if the nature and significance of their relationships with the federal government are such that the exclusion would cause the federal reporting entity financial statements to be misleading or incomplete.”) helps to ensure that the Statement could accommodate rare or unique situations that may arise in the future.

Members agreed this principle should be included. However, members believed this should lead to disclosures, not consolidation. It was agreed there should be some flexibility in determining the disclosure and that it should discuss the relationship and other pertinent facts.

Planned Actions for Issue : Staff will revise the requirements for disclosures for the misleading to exclude principle. This may be an area where the reporting model would have relevance in perhaps some other presentation may be more appropriate over consolidation.

Issue: Temporary Exclusion

The Draft contained the Exception for Temporary Conditions to reflect the fact that temporary are situations where the conditions are not likely to remain in existence permanently and provided language specific to long-term interventions and proposed disclosures for entities meeting the temporary exclusion.

Members questioned if the focus should be on demonstrating that something is temporary or demonstrating there is no plan to make it permanent. Members appeared to prefer the approach used in the examples—“Temporary control-- the federal government has no plan to continue control permanently and instead plans to relinquish or cede control; and Temporary ownership-- the federal government acquires ownership of an entity but it is held exclusively with the view of being disposed.” Certain members believed the focus of the definition needed to be based on intent. However, certain members expressed concern if things are too open ended or if it is based on intent.

Members noted concern with the requirements for disclosure of a brief description of the formal plan that describes the interventions is not expected to be permanent. A member noted that often no such plan exists and that a written assertion may be more appropriate. Also, it was suggested that the description of the plan wasn’t necessary since it isn’t required.

Members also noted that the disclosures are required for each entity, and this should be revised to include aggregations by agency, condition, etc.

Planned Actions for Issue: Staff will work towards a revised proposal for the Temporary Exception that addresses Board members concerns while finding a middle ground while considering intent. Staff will also revise the required disclosures. This may be an area where the reporting model would have relevance in perhaps some other presentation may be more appropriate over consolidation.

Issue: Exception for Agency Mission-Related Interventions

The Draft included language for Agency Mission-Related Interventions as a separate exception to note that certain agencies do interventions as part of their mission and naturally may not require as detailed disclosures as the temporary conditions. Certain members noted this seemed very similar to the Temporary Exclusion. There was also concern regarding the title of the section as most actions are mission related. This section was drafted to address the more routine interventions such as receiverships at the FDIC and NCUA (which are different than what's described under the Temporary Exclusion because it's described as extraordinary activities that are rare, not routine or normal activities, not part of strategic planning and so forth.)

Planned Actions for Issue: Staff will confirm this is best handled with a separate section, clarify the language in the section and determine a more appropriate title.

Issue: Flowchart

A Flowchart *Determining the Boundaries of the Federal Reporting Entity and Display* was included with the proposal because the task force thought it would be a useful Appendix to the Statement. The Flowchart will have to be updated to reflect the final Statement.

Planned Actions for Issue: Staff will revise the flowchart for consideration with the Exposure Draft.

Issue: Related Parties

The Board agreed Related Parties should be addressed after completing the Draft Statement (either within this statement or a separate statement on Related Parties.)

Planned Actions for Issue: The Related Party issue will be researched and explored further once the draft is near completion.

Issue: Amendments to SFFAC 2

Once the Draft Statement is near completion, a detailed review of SFFAC 2 must be done to determine if any areas should be amended or rescinded.
SFFAS 6 revisionary interest FFRDC

Issue: What about the Federal Reserve?

It was agreed that as part of the federal entity project, the Federal Reserve exclusion from consolidation in the financial statements of the U.S. government would be reconsidered. Par. 47 of SFFAC 2, *Entity and Display* specifically provides the exclusion as follows:

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.

Therefore, Federal Reserve representatives were invited to provide a briefing to the Federal Entity Task Force so that it may make a recommendation to the Board. See the Summary of the Federal Reserve Briefing attached to this memo. The detailed summary should enable Board members to gather much of the same information that was presented to the task force.

Planned Actions for Issue: Federal Entity Task Force will develop a recommendation for the Board. The Task Force will first focus on the entity issue as this is the first question and display should not bias the decision on entity. The Task Force will consider the Federal Reserve as a whole, the Board of Governors, and the Federal Reserve Banks against the conclusive principle, the indicative principles, and misleading to exclude framework and then provide a final conclusion/recommendation with justification on whether each potential unit is part of the federal reporting entity. This may be an area where the reporting model would have relevance in perhaps some other presentation may be more appropriate over consolidation.

Issue: Intelligence Community Entities

Issue: General Fund

Issue: Other categories/ relationships to address

Issue: Consideration of Unintended Consequences

Members agreed that most of the principles and related criteria in the proposal sound appropriate, but there was concern whether it would result in unintended consequences or changes. Members suggested a separate study to determine what changes may result.

Planned Actions for Issue: Staff will perform test cases either prior to, and perhaps some in conjunction with the exposure draft. Staff will consider the best timing and method to incorporate testing.



Federal Accounting Standards Advisory Board

U. S. Government Reporting Entity

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by Date 90 days after issuance

Month Date, Year

Working Draft – Comments are Not Requested on This Draft

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 for comment, or preliminary views document may be published before an exposure draft is published 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.

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366
www.fasab.gov

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ISSUE DATE

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

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, TITLE. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

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

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

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

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. or A public hearing has been scheduled at 9:00 AM on Month Day, Year, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C..

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen

Chairman

Executive Summary

What is the Board proposing?

This exposure draft (ED) provides principles to define the boundaries of the U.S. government reporting entity. This ED provides criteria or indicators that may assist in assessing whether an entity meets the principles and is within the boundaries of the U.S. government reporting entity. This ED requires the presentation of consolidated financial reports for those entities meeting certain consolidation criteria and provides for alternative presentations (discrete presentation, detailed disclosures, or required supplementary information (RSI)) for those not meeting the consolidation requirements. The proposed Statement would be effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

The primary reason for defining federal reporting entities is to ensure that users of general purpose federal financial reports (GPFRR) will be provided with complete financial information about federal entities and their involvements. Clearly defining the boundaries enables users to understand the entities encompassed by federal reporting entities and ensures that the financial statements contain all the information essential for fair presentation of the financial position and results of operations and excludes information that would not result in fair presentation. Defining the boundaries of federal reporting entities also ensures consistency and completeness in what reporting entities encompass.

Identifying the entities for inclusion in federal reporting entities and consolidation are critical to creating transparent reports to support accountability and help meet the Objectives of Federal Financial Reporting. As a democracy, elected officials are to be held accountable to the public and financial statements provide them with a means of doing so.¹ In order to achieve accountability, the content and structure of the financial reports should be clear, complete and comprehensive to citizens.

¹ Par. 74, SFFAC 1, Objectives of Federal Financial Reporting.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

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

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

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

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

All responses are requested by insert date.

Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.

Q2.

Q3.

Introduction

Purpose

1. The primary reason for defining federal reporting entities is to ensure that users of general purpose federal financial reports² (GPFFR) will be provided with complete financial information about federal reporting entities and their involvements. The structure of the federal government and its relationships with other entities has become increasingly complex and, as such, it is important to develop principles that can be used to identify entities that are required to be consolidated into the GPFFR of the U.S. government and into each component entity's financial statements. Additionally, ensuring adequate disclosures or alternate presentation for those entities not consolidated is equally important.
2. 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 that resulted in the need for a standard.³
3. This Statement provides principles to guide preparers of GPFFR in determining what is required to be encompassed in a federal reporting entity. This Statement provides criteria and indicators that may assist in assessing whether an entity meets the principles and is within the boundaries of a federal reporting entity.
4. This Statement requires the presentation of consolidated financial reports for federal reporting entities meeting certain consolidation criteria and provides alternative presentations (discrete presentation, detailed disclosures or RSI) for entities not meeting the criteria for consolidation.

² The term general purpose financial report is used throughout this Statement as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government reporting entity is known as the Financial Report of the U.S. Government and for component reporting entities it usually called the Performance and Accountability Report or the Agency Financial Report.

³ SFFAC 2 is a Concepts Statement and is considered Other Accounting Literature in the hierarchy of generally accepted accounting principles (GAAP) and therefore it is level d in the GAAP hierarchy.

Materiality

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

Effective Date

6. The proposed standards are effective for periods beginning after September 30, 2011. Earlier implementation is encouraged.

Proposed Standards

Scope

7. This Statement applies to federal entities that prepare general purpose federal financial reports (GPFFR) in conformance with 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*.
8. This Statement does not specify which federal entities are reporting entities or require that any such entity must prepare and issue GPFFR. The purpose of this Statement is to enable entities preparing and issuing GPFFR to identify the boundaries of their reporting entity.

Definitions

9. Definitions in paragraphs 10 through 13 are presented first in the proposed Statement because of their importance in understanding the Statement. Other terms shown in boldface type the first time they appear in this document are presented in the Glossary at Appendix C. Users of this document may want to examine all definitions before reviewing the Statement and Basis for Conclusions.
10. **Federal Reporting Entity** A federal reporting entity is a federal entity⁴ that issues a General Purpose Federal Financial Report (GPFFR). It issues GPFFR because either there is a statutory or administrative requirement to prepare them or it chooses to prepare them. SFFAC 2 explains for an entity to be a reporting entity,⁵ it would need to meet all of the following criteria:
 - a. 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.
 - b. The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.

⁴ The term "entity" is a general term used to refer to any legal, administrative or organizational structure or unit.

⁵ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

c. 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.

The term “federal reporting entities” is used broadly to refer to all federal reporting entities which would include the U.S. government reporting entity and component reporting entities.

11. **U. S. Government Reporting Entity** The U. S. government reporting entity is the largest federal reporting entity and encompasses all entities existing within the federal government, which include all component reporting entities within the executive, legislative, and judicial branches as well as other entities assessed to be included based on the principles and criteria established in this Statement.
12. **Component Reporting Entity** Component reporting entity is used broadly to refer to a federal reporting entity within a larger federal reporting entity that issues GPFFR. Examples of component reporting entities include entities that are part of the federal government, such as executive departments, independent agencies, and government corporations. Component reporting entities would also include sub-components (entities that are part of a larger component reporting entity⁶) that prepare GPFFR. One example is a bureau of a larger department that prepares stand alone financial reports. Other examples include commercial functions, revolving funds, and/or other accounts for which GPFFR are prepared.
13. **Special Purpose Reports** Special purpose reports are any special purpose financial (and other, such as a compliance) report outside GPFFRs and outside the scope of FASAB. Entities preparing these types of reports are not necessarily reporting entities for purposes of this Statement.

Principles Defining the Boundaries of the U.S. Government Reporting Entity

14. Clearly defining the boundary of the U.S. government reporting entity ensures that the financial reports contain all the information essential for fair presentation of the financial position and results of operations.

⁶ Often financial reports that present aggregations of information for organizations such as an administration or a bureau are more useful than reports at the higher component level. Such reports can provide a better understanding of the financial results and status of the many individual organizations and programs constituting a department or major agency.

15. Determining whether an entity is within the boundary of the U.S. government reporting entity involves assessing organizations against the principles below. An entity must first be assessed against the conclusive principle to determine if it is within the boundaries. Entities not meeting the conclusive principle are assessed against the indicative principles to determine if they are within the boundaries of the U.S. government reporting entity. Lastly, entities not meeting the indicative principles should be assessed against the misleading to exclude principle. See the Flowchart at Appendix X.
16. After defining the entities within the boundaries of the U.S. government reporting entity, additional analysis is required to determine which entities should be consolidated and which require alternative display presentations or disclosures as discussed under Consolidation Criteria and Disclosure Requirements.

U.S. Government Reporting Entity Conclusive Principle and Criteria

17. An entity (including any revenues attributable to or costs incurred on behalf of the programs administered by the entity⁷) listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule entitled *Federal Programs by Agency and Account* is within the boundaries of the U.S. government reporting entity.
18. However, entities listed in the *Federal Programs by Agency and Account* schedule that only receive a subsidy or federal financial assistance⁸ would not be considered within the boundaries of the U.S. government reporting entity based on the conclusive principle.⁹

⁷ As elaborated in SSFAC 2, *Entity and Display*, par. 11-28, the federal government can be viewed from an organization, budget and program perspective. Organizations (i.e., entities) administer programs that are financed by budget accounts. Par. 33 of SFFAC 2 explains any revenues attributable to or costs incurred on behalf of the programs administered by an organization should be associated with that reporting entity. For example, an entity should include all programs and budget accounts, including off-budget accounts and financing accounts that may not be specifically included in the schedule but are associated with and under the control of the entity.

⁸ As defined by the Single Audit Act Amendments of 1996 which 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.

⁹ Instead, the entity, like other entities the federal government has a relationship with, would be assessed against the indicative principles to determine if it is within the boundaries of the U.S. government reporting entity.

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19. Certain entities may be partially in the budget and receive funding from other sources (such as donations) that are not included in the budget.¹⁰ Eleemosynary Entities that are dependent on or supported by charity in addition to federal government funding are unique and discussed in the section entitled “Eleemosynary Entities” under **U.S. Government Reporting Entity Consolidation and Disclosure Requirements**.
 20. If an entity meets the conclusive principle, no further assessment against the indicative principles is required; it is considered within the boundaries of the U.S. government reporting entity.

U.S. Government Reporting Entity Indicative Principles and Criteria

21. Entities not meeting the conclusive principle above may still fall within the boundaries of the U.S. government reporting entity; however, additional assessment is required to ascertain if it is in fact within the boundaries of the federal reporting entity and what the appropriate financial presentation and display would be.
22. The U.S. government reporting entity may also include entities:
 - a. Established by the federal government to fulfill a public purpose or federally related mission;
 - b. In which the federal government has a majority ownership interest; or
 - c. Over which the federal government has the ability to exercise control with expected benefits or risk of loss.
23. Each indicative principle requires criteria and guidance to assist in application. Further, certain determinations will require the use of professional judgment.

¹⁰ For example, a museum may receive additional funding from non-federal sources (donations or endowment trust funds) that are not included in the budget.

Established by the Federal Government

24. The U.S. government reporting entity encompasses all the entities established¹¹ by the federal government. An entity that is established by the federal government is established under the authority of the federal government¹² to fulfill a public purpose or federally related mission. Such entities may take many forms, including administrations, agencies, banks, boards, commissions, corporations, departments, foundations, and institutions and may be given any combination of powers and privileges of the federal government. It also includes entities such as government-sponsored enterprises and federally funded research and development centers (FFRDCs).
25. From among all entities established by the federal government, the U.S. government reporting entity in particular encompasses all the entities existing as a matter of law within the federal government, which comprises three branches: the legislative (Congress and its support entities); the executive (the President and executive entities); and the judicial (Supreme Court and inferior courts established by law).
26. Statutes or regulations that establish an entity within a branch (or within another entity) of the federal government often clearly state so.¹³ On the other hand, statutes or regulations may establish an entity and clearly indicate its status as outside of the federal government by stating that the entity is “private” or that it is “not an agency or instrumentality of the United States Government.”¹⁴ However, in other cases, the statutes or regulations

¹¹ Established entities would exclude federally chartered entities under Title 36 of the U.S. Code because these organizations were incorporated under state law before receiving a congressional charter (e.g., the Boy Scouts of America).

¹² The phrase “under the authority of the federal government” means to be created by or at the direction of a federal statute or by a person or organization authorized under a federal statute or regulation to create them. Certain government officials may have the authority under law to establish an entity by regulation. Under this Statement, the term “by regulation” includes the act of incorporation or other official filing or notice that an entity is established.

¹³ For example, for the executive branch, the U.S. Department of Defense is created by statute as “an executive department of the United States,” 10 U.S.C. § 111 and the United States Postal Service is “an independent establishment of the executive branch of the Government of the United States,” 39 U.S.C. § 201.

¹⁴ Congress uses and defines various terms to prescribe the applicability of laws to certain types of federally created entities. Congress defines what constitutes an agency or instrumentality of the federal government for purposes of a particular statute or set of statutes that assigns duties, liabilities, and administrative requirements and grants privileges of the federal government to individual entities or types

- establishing the entity may not be as clear, requiring additional analysis. Statutes or regulations may omit any express statement about the location of the entity as either within or outside the federal government.¹⁵
27. While all entities established by the federal government are within the boundaries of the U.S. government reporting entity, those entities that exist within the federal government have a closer relationship to the federal government than those outside the federal government. The nature of this relationship is relevant in assessing the presentation of the entity in the GPFFR of the U.S. government reporting entity, as detailed under Consolidation and Disclosure requirements to determine if the entity is consolidated or if an alternative presentation (discrete presentation, disclosures, or required supplementary information (RSI) is required.

Majority Ownership Interest

28. The federal government may acquire an ownership interest in an entity. An **ownership interest** is a claim on the net residual assets of an entity, such as a legal claim on the net residual assets or holding shares or other formal equity structure. A formal equity structure includes share capital or an equivalent form of unitized capital, or other equity structures in which the interest can be measured reliably.
29. The holding of an ownership interest often entitles the holder to an equivalent percentage interest in voting rights, but not always. In the federal government there may be instances of:
- a. Ownership interest with voting (controlling) interest;
 - b. Ownership interest without voting (controlling) interest; and

of entities. Even in cases where Congress defines an entity as “not an agency or instrumentality” of the federal government, the entity may be considered to be part of the federal government for certain purposes.

¹⁵ For a discussion of how different types of entities may be established by the federal government, see GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: Oct. 2009).

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- c. Control without ownership interest, which is addressed in the Control section below.
30. An ownership interest with over 50% of the voting shares or 50% of the net residual assets¹⁶ of an entity is considered a majority and within the boundaries of the U.S. government reporting entity.
31. As noted above, the federal government may control an entity although it does not hold a majority ownership interest. All entities should be assessed against the control principle below.

Control with Expected Benefits (or Risk of Loss)

32. For purposes of defining the boundaries of the federal reporting entities for financial reporting, control is defined as follows: **Control** is the power to govern the financial and/or operating policies of another entity with expected benefits (or the risk of loss)¹⁷ to the federal reporting entity. Entities controlled by the federal government are considered within the boundaries of the U.S. government reporting entity.
33. Control for these purposes refers to the ability to control and should be assessed at the reporting date regardless of the federal government's ability to change it in the future. In determining if control exists, it is necessary to determine the substance of the relationship between the federal government and the entity as it may not be completely reflected by their legal form.
34. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an entity. It is the federal government's authority to determine the policies governing those activities that indicates control.
35. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of entities which individually will fall somewhere along a continuum. At one end of the continuum, it will be clear that an entity does not have the power to act independently and is controlled by the federal reporting entity. At the other end, the entity will have the power to act independently and,

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

¹⁷ The expected benefit or risk of loss may be financial or non-financial. For example, a non-financial benefit would be the federal government benefits from a service being provided on its behalf.

while the federal government may have a level of influence on the entity, it will be clear that it does not have control. Along the continuum, consideration needs to be given to the nature of the relationship between the federal government and the entity in order to determine whether control exists.

Indicators of Control

36. There are certain indicators of control that should be considered in determining whether the federal government controls an entity. These indicators provide strong evidence of control, however; the absence of one of these specific indicators does not lead to a presumption that control is not present.
37. There are certain indicators¹⁸ that provide more persuasive evidence of control. Control generally exists when the federal government has the authority to:
 - a. Unilaterally appoint or remove a majority of the governing board members of another entity;
 - b. Govern or direct the governing body on the financial and operating policies of the entity;
 - c. Access entity's assets or direct the ongoing use of those assets, or has ongoing responsibility for losses; or
 - d. Unilaterally dissolve the entity thereby having access to the assets and responsibility for the obligations.
38. Other indicators, when considered in the aggregate, provide evidence that control exists when the federal government has the power to:
 - a. Provide significant input into the appointment of members of the governing body of the entity or being involved in the appointment or removal of a significant number of members;
 - b. Establish or amend the entity's fundamental purpose and mission, which may include requiring the entity to carry out federal missions and objectives;

¹⁸ The indicators noted in par. 37 and 38 provide support for both the power and/or benefit part of the control definition. When assessing control for financial reporting purposes, a federal reporting entity should meet both the power and benefit elements for determining whether control exists.

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- c. Appoint or remove key executives or personnel;
 - d. Approve the budgets or business plans for the entity;
 - e. Veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
 - f. Establish, rescind, or amend management policies;
 - g. Establish limits or restrictions on borrowing and investments of the entity; or
 - h. Restrict the capacity to generate revenue of the entity, especially the sources of revenue.

Situations Where Control Does Not Exist

- 39. Because of the uniqueness of the federal government, it is important to distinguish what does not constitute control. Specifically, control would not be inferred from:
 - a. The authority to exercise regulatory powers over an entity;
 - b. Constitutional responsibility for a particular matter related to the entity's mission or operations; or
 - c. Economic dependency on the federal government in relation to the entity.
- 40. The federal government has the power to regulate many entities by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of entities by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated entities 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 entities extends only to the regulatory aspects of the operations.
- 41. Control does not stem simply from the federal government's constitutional responsibility for a certain activity. When the federal government has constitutional responsibility for a certain activity, it does not mean the federal government controls all the entities performing such activities. The nature of the relationship between the federal government and the entity performing the activity is the determining factor.

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42. Certain entities may be economically dependent on the federal government but ultimately retain discretion as to whether it will accept funding or do business with the federal government. For example, many not-for-profits rely on the federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence the entity which is dependent on its funding or business through purchase power, the federal government does not govern the entity's financial and operating policies.

U.S. Government Reporting Entity Misleading to Exclude Principle

43. The U.S. government reporting entity should also include entities not meeting the conclusive or indicative principles if the nature and significance of their relationships with the federal government are such that the exclusion would cause the financial statements to be misleading or incomplete.
44. For example, there may be instances when an entity is not listed in the Federal Programs by Agency and Account and it may be difficult to provide sufficient evidence it meets the indicative principles yet the GPFFR would be misleading or incomplete if the entity were excluded.¹⁹

U.S. Government Reporting Entity Consolidation and Disclosure Requirements

45. Consolidation aggregates the individual financial statements of entities comprising a reporting entity. 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.
46. The principles and related criteria described above provide guidance on determining the boundaries of the U.S. government reporting entity. An assessment must be made to determine which of those entities should be consolidated and what disclosures or alternative presentations are necessary for those not consolidated.

¹⁹ Although situations such as this would be considered unique or rare, the Statement provides for situations that could potentially arise.

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47. An entity meeting the conclusive principle is consolidated in the U.S. government reporting entity.
 48. As the indicative principles require professional judgment in assessing, the same applies for determining when entities meeting certain indicative principles should be consolidated. This Statement allows for judgment by the preparer to determining if consolidation would provide the most meaningful presentation or if an alternative would best provide full disclosure.
 49. Meeting one of the indicative principles alone would not necessarily lead to consolidation in the federal reporting entity. When assessing the entities against the criteria, there may be entities that meet all three of the indicative principles while others may only meet one or two. From this, there are many variations of how an entity may fall within the boundaries of the federal reporting entity, which ultimately relate to how the entity is presented and disclosed.
 50. Risks and Rewards approach in assessing for consolidation
 51. In making this assessment, materiality of the entity and the relationship with the federal government should be considered. Materiality includes both quantitative and qualitative factors.
 52. This Statement provides guidance on how entities meeting the indicatives principles may be reported. However, as noted above professional judgment by the preparer should be a determining factor in the assessment
 - a. An entity meeting all three Indicative principles, if applicable²⁰, should be consolidated in the U.S. government reporting entity.
 - b. An entity meeting
 - c. An entity meeting
 - d. An entity meeting
 53. Indicative 1--Is there some way to group established entities by degree of relationship?
 54. Indicative 2—Majority ownership
 55. Indicative 3--Control

²⁰ In some situations, the principle of majority ownership may not apply for particular entities.

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56. For entities meeting the Misleading to Exclude principle, the following should be disclosed:
- a. Name and description of the entity;
 - b. Nature of the federal government's relationship with the entity and if applicable, the percentage of ownership interest and voting; and
 - c. Other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity resulting from the relationship.

Exceptions and Unique Relationships

Exception--Temporary Conditions of Indicative Principles

57. Temporary conditions are not expected to be permanent. Although there is no specific timeframe limit, the federal government's intention is not to make the conditions permanent.
58. Example of temporary conditions are:
- a. Temporary control-- the federal government has no plan to continue control of an entity permanently and instead plans to relinquish or cede control; and
 - b. Temporary ownership--the federal government acquires ownership of an entity but it is held exclusively with the view of being disposed.
59. Typically the federal government intervention actions in these instances are not routine activities. For example, strategic planning documents are unlikely to include objectives to routinely initiate such interventions and the actions are not necessarily taken to further established government policies.
60. The federal government's intervention in exceptional circumstances--such as an economic crisis situation or military occupation—may last for more than several years, but it is not intended to be permanent. Circumstances may arise that necessitate the federal government intervention to be longer than would normally be anticipated, but considering the conditions are not expected to be permanent, it meets the temporary exclusion.

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61. Temporary situations that exist at fiscal year-end²¹ must be assessed to confirm they are in fact temporary conditions and not expected to be permanent. If deemed temporary or not permanent, the entity should be excluded from consolidation. However, certain disclosures would be appropriate as described below.
62. Entities where the conditions are deemed temporary should not be consolidated in the U.S. government reporting entity. Disclosures for temporary situations should include the following for each significant²² entity:
- a. Name and description of the entity;
 - b. Nature of the federal government's relationship with the entity and if applicable, the percentage of ownership interest and voting;
 - c. Primary reasons for the temporary situation or intervention and intended timeframes;
 - d. Brief description of the exit strategy²³ or other information that describes the federal government's intervention is not expected to be permanent; and
 - e. Other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity resulting from the temporary situation.

Exception-- Receiverships

63. There are certain federal entities whose mission may include taking control or ownership of an entity with no goal to maintain control or ownership. For example, certain federally-created entities may act as a receiver to liquidate failing financial institutions or as a conservator to guide such institutions back to safe and sound conditions.²⁴

²¹ Temporary situations may last several reporting periods. In such situations, the federal reporting entity should confirm such conditions are not likely to remain in existence permanently as of each reporting period.

²² Determining significant entities should be based on both quantitative and qualitative materiality considerations. Information about other entities not deemed material, may be aggregated by intervention.

²³ The brief narrative may include options being considered, plans for ending the intervention, information regarding the length of such arrangement or plans to change terms of such arrangement.

²⁴ 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

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64. The entities related to these types of mission-related activities would be excluded from consolidation. However, this exemption is due to the activities being part of the normal activities and mission of the federal reporting entity (not because of the temporary exclusion) and disclosures would be appropriate.²⁵
65. Disclosures should include the following:
- a. Nature and description of the federal reporting entity's relationship with the entities.
 - b. Other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the federal reporting entity resulting from the relationship.
 - c. Other information about the entities may be voluntarily disclosed if deemed necessary or included as RSI or Other Accompanying Information (OAI).

Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations

66. Eleemosynary Entities are dependent upon or supported by contributions or charity, although they may receive some funding from the federal government. Examples would include the various visual and performing arts organizations.
67. The federal government's relationship is on-going and often includes various degrees of control, yet the organizations are reliant upon donations and support with the understanding it will be used for the designated purposes (and not for general federal government operations). This unique relationship is based upon public trust that reinforces the need for the federal government to be accountable to the public for its stewardship of donated funds.
68. If the federal government provides 80% or more of the total funding, the entity should be consolidated in the U.S. government reporting entity.

by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships.”

²⁵ The disclosures required are consistent with existing practices.

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69. If the federal government provides less than 80% of the total funding, the entity should not be consolidated in the U.S. government reporting entity. Instead the U.S. government reporting entity should disclose the:
- a. name, purpose, and description of the entity;
 - b. nature of the federal government's relationship with the entity and the amount of funding or subsidy provided to the entity, and if applicable, the percentage of ownership interest and voting;
 - c. condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues.
 - d. other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity.
70. Joint Ventures?
71. Other Rships? GSEs? FFRDC?

Principles Defining the Boundaries of Component Reporting Entities

72. Compare/Contrast to US Government Reporting Entity
73. Address in a separate standard? This could get quite lengthy when each are repeated or revised to fit application at component level.
- 74.
- 75.
- 76.

Related Parties

Related parties are entities with whom the federal government has a relationship, but is not [within the boundaries of the federal reporting entity] or [consolidated in the federal reporting entity.]

To Be Completed

Effect on Existing Concepts

This Statement affects existing Concepts is amended as follows: COMPARE FINAL TO SFFAC 2 to determine any necessary amendments

Effective Date

77. These standards are effective for periods beginning after September 30, year. Earlier implementation is encouraged.

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

Appendix A: Basis for Conclusions

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

Project History

- A1. Short history of the research (It is not necessary to recount the deliberations of the Board. For example, a tentative decision that is later reversed need not be explained in the history. Instead, the key issues should cover major options considered and why they were not selected.)
 - a. The
 - (1) The
 - (a)
- A2. The
 - a. The –
- A3. Task Force Created
- A4. The task force recommendations
- A5. The task force survey to federal financial community
- A6. The task force meetings
- A7. The task force meetings
- A8. Application to Legislative and Judicial Branches
- A9. The FASAB's sponsors do not prescribe accounting standards for the legislative and judicial branches. The legislative and judicial branches, and most entities within those branches, are not currently required to prepare financial statements and those that do prepare statements are not subject to any requirements by the FASAB's sponsors to follow FASAB GAAP or

prepare reconciliation between FASAB GAAP and FASB GAAP. However, as the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt if they prepare GAAP-based financial statements.

Conclusive Principle

- A10. SFFAC 1, *Objectives of Federal Financial Reporting*, includes the Budgetary Integrity Objective that states “Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised...” Federal reporting entities and officials responsible for executing the budget are accountable for their stewardship of public funds as well as to manage fiscal policy. This would include all entities that are included in the program and financing schedules of the President’s budget.
- A11. The Board believes first assessing entities against the conclusive principle of being in the budget will capture the majority of entities within the boundary of the U. S. government reporting entity. This is also consistent with concepts in Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display.
- A12. 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” and included specific recommendations on matters then considered controversial. The report further states “borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion.”
- A13. The Board believes that a decision by the Office of Management and Budget or the Congress to include an entity in the budget settles the matter of the entity being “federal.” Inclusion in the budget means that allocation of resources to its activities is determined through federal legislation – making the entity itself financially accountable to Congress. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if entities included in the budget were not included in the financial reports.

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- A14. The conclusive principle represents a starting point in analysis but does not mean that entities not addressed in the budget should be excluded. Because the budget's purposes differ from financial reporting objectives in many respects (such as the forward looking focus of the budget and decisions on the allocation of resource flows), it is possible that entities or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports.
- A15. Since federal reporting objectives are broader and address management of assets and liabilities, different conclusions may result on certain entities. The indicative principles (next step in assessment) are necessary to ensure completeness in the context of the federal financial reporting objectives.
- A16. Indicative 1
- A17. Indicative 2
- A18. Indicative 3
- A19. Misleading
- A20. Consolidation
- A21. Disclosures
- A22. meeting one of the indicative principles alone would not necessarily lead to consolidation in the federal reporting entity. When assessing the entities against the criteria, there may be entities that meet all three of the indicative principles while others may only meet one or two. From this, there are many variations of how an entity may fall within the boundaries of the federal reporting entity, which ultimately would relate to how the entity is presented and disclosed.
- A23.
- A24.
- A25.
- A26. Temporary
- A27. Although these types of interventions may last several years, there is typically an end date in the future, such as a date certain in legislation when the activity will end or when authority expires that supports such interventions.

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- A28. In addition, the federal government is likely to have an exit strategy that demonstrates the intervention is not to be considered permanent. The plan may detail milestone dates for certain actions, the expectations of the interventions and results, necessary factors to end the intervention, as well as a commitment to the plan.
- A29. Brief description of the formal plan that describes the federal government's intervention is not expected to be permanent and plans for ending the intervention, including any information regarding the length of such arrangement or plans to change terms of such arrangement;

Alternative Views

- A30. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a proposed standard. The alternative views discuss the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in alternative views are those of the individual member alone. However, an individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by [insert name or names] and is presented as an alternative view.

Appendix B: Illustrations-FLOWCHART

Appendix C: Abbreviations

CFR	Consolidated Financial Report
DOL	U.S. Department of Labor
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Reports
OAI	Other Accompanying Information
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

Appendix D: Glossary

FASAB Board Members

Tom L. Allen, Chair

Debra J. Bond

Robert F. Dacey

Michael H. Granof

Nancy Fleetwood

Norwood J. Jackson, Jr.

Alan H. Schumacher

D. Scott Showalter

Harold I. Steinberg

FASAB Staff

Wendy M. Payne, Executive Director

Project Staff

Melissa L. Loughan

Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov