



June 10, 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 C<sup>1</sup>**

**MEETING OBJECTIVE**

The primary objective for the June 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 4, 5, 8, 9, 13, 14, 16 and 18. The following issues will be discussed at the June meeting:

- ***Issue 1- Clarification that financing accounts for any entity should be considered in the conclusive principle***
- ***Issue 2- Entities partially in the budget (Museums and Performing Arts Organizations)***

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

- **Issue 3- Project Scope Expanded to Include Consolidation Issues Related to Entities with a Different Source of GAAP and Different Year Ends**
- **Issue 4- Introduction to the Indicative Principles**
- **Issue 5- Tone of Indicative Principles (“includes” or “may include”)**
- **Issue 6- Clarification of 1<sup>st</sup> Indicative Principle- Legal status of entities**
- **Issue 7- Clarification of 2<sup>nd</sup> Indicative Principle—Majority Ownership**

**Attachment 1** includes copies of the tables provided in the GAO Report *Federally Created Entities-An Overview of Key Attributes* (GAO Report 10-97) that was issued in October 2009. The Draft ED is located at **Attachment 2** for your reference and to allow issues and draft language to be considered in the context of the Draft ED. However, the main focus of the session will be on the issues and questions in the Staff Issue Paper.

## **BACKGROUND**

At the April 2010 meeting, the Board discussed the following issue areas and staff recommendations related to the federal entity project:

- *Clarification of language for entities receiving subsidies that are listed in the budget*
- *Clarification that all accounts for any entity should be considered in the conclusive principle*
- *Entities partially in the budget*
- *Identifying Reporting Entities and Federal Entities Subject to FASAB*
- *Terminology & Definitions*
- *Principles for both the government-wide reporting entity and component reporting entities should be addressed within one proposed Statement*

While additional detail of the deliberations can be found in the minutes, the Board agreed to the following:

- The clarifying language (with the footnote moved to the body of the same paragraph in the Statement) for entities receiving subsidies that are listed in the budget presented by staff was approved.
- The issue *Clarification that all accounts for any entity should be considered in the conclusive principle* would be addressed further in relation to the component reporting entity and staff will determine if language is still necessary for the government-wide reporting entity.
- For entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed

would be addressed at the end of the federal entity project along with other unique relationships.

- The use of terms and definitions for government-wide reporting entity and component reporting entity.
- Incorporate language from SFFAC 2 that related to *Identifying Reporting Entities* into the Draft ED and do not revisit these areas.
- Issue one Statement covering principles for both the government-wide reporting entity and component reporting entities.

The Board will be considering additional issues to be resolved as staff works toward finalizing the Draft ED.

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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](mailto:loughanm@fasab.gov).

## Staff Issue Paper

### ***Issue 1: Clarification that financing 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 include financing accounts. This issue was not resolved at the April meeting and staff agreed to work on the language.

Staff proposes the following language for the Draft ED:

An entity listed in the *Budget of the United States Government: Analytical Perspectives-Supplemental Materials* schedule entitled *Federal Programs by Agency and Account* <sup>[FN 1]</sup> is within the boundaries of the government-wide reporting entity.

<sup>[FN 1]</sup> Entities should include any financing accounts associated with the organization although they may not be specifically included in the schedule.

### **QUESTION for the Board-**

**Does the Board agree with staff's proposed language?**

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### ***Issue 2: Entities partially in the budget (Museums and Performing Arts Organizations)***

As you recall, the Board agreed at the April meeting that for entities partially in the budget (i.e., some of their operations or accounts not in the President's Budget), such as the Smithsonian Institution, the entity should be included in the federal reporting entity based on the conclusive principle. The Board also agreed the issue of how they would be presented or displayed would be addressed along with other unique relationships near the end of the federal entity project.

Staff believes the language in the conclusive principle should be silent and the exception for these types of organizations (museums and performing arts and possibly others if so determined) should be included in the Draft ED under Government-wide Reporting Entity Presentation and Disclosure Requirements and under the Exceptions and Unique Relationships (the same section where Temporary Exceptions are addressed.)

Staff suggests the language be silent because otherwise the language would simply be recognizing that certain entities, such as museums and performing arts organizations, may be in the schedule and also receive significant funding from non-federal or other non-budgetary or off-budget sources, such as donations. In staff's view, such recognition is unnecessary and could be confusing. As discussed before, this is very similar to other major entities listed in the *Federal Programs by Agency and Account*,

such as the Department of the Interior, which holds material amounts of non-budgetary Indian Trust Funds. Therefore, the language doesn't appear necessary as the conclusive criterion simply states that any listed entity is within the boundary because at least some part of its financing is included in the budget, as reflected by the entity being listed in the budget.

Based on decisions made to date, for those entities that are listed in the Federal Programs by Agency and Account, they automatically meet the conclusive principle and, therefore, are part of the federal reporting entity. While the Board may develop unique requirements for presentation and display of certain entities, such as museums and universities, or for certain operations, activities, or financing sources, such as the existing standard for fiduciary activities, there isn't a need for provisions related to how the conclusive principle applies to them.

The staff proposed language for the conclusive principle is as follows:

Government-wide Reporting Entity Conclusive Principle and Criteria

17. An entity listed in the Budget of the United States Government: Analytical Perspectives- Supplemental Materials schedule Federal Programs by Agency and Account<sup>2</sup> is within the boundaries of the government-wide reporting entity.
18. However, entities listed in the *Federal Programs by Agency and Account* schedule that only receive a subsidy or other federal financial assistance<sup>3</sup> would not be considered within the boundaries of the government-wide reporting entity based on the conclusive principle. 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.
19. If an entity meets the conclusive principle, no further assessment against the indicative principles is required; it is considered within the boundaries of the government-wide reporting entity.

**QUESTION for the Board-**

**Does the Board agree with the staff proposal that language in the conclusive principle should be silent and the exception for these types of organizations (museums and performing arts) should be included in the Draft ED under Government-wide Reporting Entity Presentation and Disclosure Requirements and under the Exceptions and Unique Relationships?**

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<sup>2</sup> Entities should include any financing accounts associated with the organization although they may not be specifically included in the schedule.

<sup>3</sup> 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.

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**Issue3: Project Scope Expanded to Include Consolidation Issues Related to Entities with a Different Source of GAAP and Different Year Ends**

*Sub-Issue: Entities with a Different Source of GAAP*

The Board has previously discussed the issue of entities that report using a different source of generally accepted accounting principles (GAAP). Treasury has presented the issue it creates at year end for preparing the government-wide financial statements. Known entities that prepare financial statements using a different source of GAAP (and are included in the government-wide) include the Pension Benefit Guaranty Corporation, Smithsonian Institution, Tennessee Valley Authority, Farm Credit System Insurance Corporation, Federal Deposit Insurance Corporation, National Credit Union Administration, and the United States Postal Service.

During the August 2009 joint meeting with GASB it was noted by GASB there are situations where organizations are included that follow FASB standards. For example, there are college and university foundations organized as 501(3)(c) not for profits that follow the FASB model. GASB concluded in Statement 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14* that those organizations can be included. The organizations are required to be discretely presented rather than blended. Statement 39 provided an exception to blending and through discrete presentation allowed the primary government to incorporate the financial information straight from the component unit's financial statements. There is no requirement to remeasure or for different disclosures. The only differences are formatting and display and this is accomplished by presenting the financial information of those organizations on a separate page.

GASB 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14* is provided below:

1. The objective of this Statement is to provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and to clarify reporting requirements for those organizations.
2. Statement No. 14, *The Financial Reporting Entity*, establishes standards for defining and reporting on the financial reporting entity. Paragraph 12 of that Statement provides that the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete ("misleading to exclude"). Although paragraph 41 of Statement 14 notes that "other organizations should be evaluated as potential component units if they are closely related to the primary government," it also indicates that "the GASB is studying circumstances under which foundations [and] similarly affiliated organizations ... might be included in the financial reporting entity." Inconsistencies in application of the reporting entity standards have occurred in practice because of uncertainties regarding these circumstances.

3. This Statement establishes additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in paragraph 9 of Statement 14. In addition, this Statement should be applied to nongovernmental component units when they are included in a governmental financial reporting entity.

Adds paragraph 40a to Statement 14 and amends paragraphs 41 and 42 of that Statement 40a. Certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

7. Component units that meet the criteria in paragraph 40a should be discretely presented. Additional requirements and alternatives for reporting discretely presented component units are provided in paragraphs 44 through 51 of Statement 14, as amended.

The Basis for Conclusion also provides

#### Different Reporting Formats

47. Another concern expressed by some respondents related to component units that report using a different generally accepted accounting principles (GAAP) reporting format than most primary governments do. However, the answer to question 104 in the Guide to Implementation of GASB Statement 14 on the Financial Reporting Entity states, in part: "Any noncompatible or additional statements required by the component unit's reporting model would not be combined with either governmental or proprietary component units, but instead would be presented as separate statements in the [general purpose financial statements]." Therefore, component units that use different GAAP reporting models need not be presented on the same page as the primary government, but may be reported on separate pages. In addition, Appendix E provides illustrative financial statements that demonstrate how information presented in a nongovernmental format can be presented so that it is "compatible" with the primary government's financial statement formats.

As the Board is aware, there is an active project on Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board, that will assist the Board in determining whether certain federal entities should be permitted to continue applying FASB GAAP and, if so, whether additional reporting such as certain budgetary information should be required. This project will also consider whether federal entities should be permitted to convert from FASB standards to International Financial Reporting Standards published by the International Accounting Standards Board. However, staff assumes there will be some entities that continue to present FASB based statements in stand-alone reports. Therefore, the issue of whether information must be presented in accordance with FASAB standards will need to be addressed.

The FASAB situation differs from the GASB situation in certain key respects. First, component units are not consolidated with the 'primary government' in the state/local reporting model. Instead, they are presented discretely. The Board has not yet determined if any entities presenting FASB based reports would be consolidated but some are clearly included in the entity. At this time, staff wishes only to confirm that members wish to address the issue of FASB based reports within this Statement and receive tentative feedback on the issues listed below.

### **QUESTIONS for the Board-**

**Do members agree that the issue of how to include entities preparing FASB based reports should be addressed in this Statement?**

**If so, do members agree with the GASB's conclusion that:**

**Financial information regarding entities that are not consolidated but are included (for example, through either discrete but separate display on financial statements or disclosure) need not be restated to conform to FASAB standards?**

#### *Sub-Issue: Entities with Different Year Ends*

The Board has previously discussed the issue of entities that report on a year end that is different from the federal fiscal year end of September 30<sup>th</sup>. This would obviously present an issue as it relates to preparing the consolidated government-wide financial statements at year end.

During the August 2009 joint meeting with GASB it was noted that GASB permits display of 'component unit' financial statements for the year that ends during the reporting entity's fiscal year. For those component units whose fiscal years are different, financial information of the fiscal year that ends within the fiscal year is included.<sup>4</sup> The primary government provides information in the notes to explain differences in reciprocal balances and transactions that took place between the entities during the year.

The full text of par. 59 and 60 of GASBS 14, *The Financial Reporting Entity*, as amended, is provided below:

59. The primary government and its component units may have identical or different fiscal year-ends. A common fiscal year-end for the primary government and all component units is encouraged. The advantages and disadvantages of a common fiscal year-end should be considered when determining

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<sup>4</sup> There is also an option to present component unit's financial statements based on a fiscal year ending within three months following the primary government's fiscal year end, if it doesn't significantly delay the issuance of the reporting entity's financial statements.

the practicality of making such a requirement. If it is determined that a common fiscal year-end is impractical, the reporting entity (which reports using the primary government's fiscal year) should incorporate financial statements for the component unit's fiscal year ending during the reporting entity's fiscal year. If the component unit's fiscal year ends within the first quarter of the reporting entity's subsequent fiscal year, it is acceptable to incorporate that fiscal year of the component unit, rather than the fiscal year ending during the reporting entity's fiscal period. Of course, this should be done only if timely and accurate presentation of the financial statements of the reporting entity is not adversely affected.

60. If transactions between component units that have different fiscal years result in inconsistencies in amounts reported as due to or due from, transfer to or transfer from, and so forth, the nature and amount of those transactions should be disclosed in the notes to the financial statements. The fiscal year of the component units included in the reporting entity should be consistent from year to year, and changes in fiscal years should be disclosed.

The FASAB situation differs from the GASB situation in certain key respects. First, component units are not consolidated with the 'primary government' in the state/local reporting model. The Board has not yet determined if any entities with different fiscal year ends would be consolidated but some are clearly included in the entity. At this time, staff wishes only to confirm that members wish to address the issue of differing fiscal year ends within this Statement and receive tentative feedback on the issues listed below.

#### **QUESTIONS for the Board-**

**Do members agree that the issue of how to deal with different year ends should be addressed in this Statement?**

**If so, do members agree with the GASB's conclusion that:**

**For component reporting entities that are not consolidated but are included (for example, through either discrete but separate display on financial statements or disclosures) the government-wide report may present fiscal year data for the year that ends during the government's fiscal year (or within 3 months following the end of the fiscal year)?**

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#### ***Issue 4: Introduction to the Indicative Principles***

Before discussing issues related to the Indicative Principles, staff wanted to obtain the Board's approval of the brief introduction to the indicative principles and discuss a broad issue that staff believes should be addressed based on initial feedback from members.

The indicative principles are the next step in assessment and are necessary to ensure completeness in the context of the federal financial reporting objectives. If an entity meets one of the indicative principles and is brought in to the government-wide reporting entity, it doesn't necessarily mean it is consolidated. Meeting one of the indicative principles resolves the question of whether the entity is federal or not, the

question of consolidation and presentation and display is determined after considering the assessment of all indicative principles.

The introduction to the indicative principles provides this framework in the Draft ED as follows:

Government-wide Reporting Entity Indicative Principles and Criteria

20. Entities not meeting the conclusive principle above may still fall within the boundaries of the government-wide reporting entity; however, additional assessment against the indicative principles is required to ascertain if it is within the boundaries of the government-wide reporting entity.

21. The government-wide reporting entity includes entities meeting any of the following indicative principles:

- a. Established by the federal government.
- b. In which the federal government has a majority ownership interest.
- c. Over which the federal government has the ability to exercise control with expected benefits or risk of loss.

22. Each indicative principle requires criteria and guidance to assist in application. Further, determinations will require the use of professional judgment and are based on the understanding of the relationship with the entity.

23. The final assessment of the appropriate financial presentation and display would be made after considering the entity against all three indicative principles collectively in the aggregate, along with other criteria. This assessment is discussed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

In the early stages of this project (prior to forming the task force and performing the surveys) staff developed an outline paper<sup>5</sup> on the boundaries of the federal reporting entity.

One issue that was deliberated early in the project was whether all the indicative principles needed to be met for an entity to be considered within the boundary of the federal entity—simply included, presentation to be determined later. Certain Board members believed all needed to be met while others believed meeting one would be enough for inclusion. The Board suggested the issue be addressed by the federal entity task force.

To briefly summarize, the task force discussed this issue at its first meeting and determined each of the indicative principles should stand alone and meeting one would

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<sup>5</sup> The outline paper contained principles very similar, but obviously have been changed slightly through the task force work and Board deliberations.

be sufficient for an entity to be included within the boundary of the federal reporting entity. The task force recommendation was presented to the Board and no objections were noted by Board members.

Included below are pertinent excerpts from the Board minutes and task force summary on this issue.

Excerpt from December 2007 Minutes

Mr. Werfel stated that he was concerned with the use of the word “or” in the bullets with the general principles and suggested it should be “and” so that all conditions must be met. He explained that the federal government regulates almost everything (such as emissions) and that is a form of control. However, that doesn’t mean everything should be included.....

Mr. Werfel agreed but also suggested that “or” should be changed to “and” in the general principles because he believes all three general principles are integrated with one another and should not be looked at separately.....

Mr. Reid explained there a number of examples where the federal government exercises control over private enterprises that is subject to control of the government. Additionally, there are hundreds of organizations that are included in the budget, but they are totally self-sustaining and have no impact on the budget. He explained based on current practice these types of organizations are included in the federal entity.....

Mr. Jacobson explained staff included “or” in the general principles because there could be a situation presently or in the future where the federal government has complete control but is not financially accountable.....

Mr. Reid explained there could be organizations that are controlled by the federal government and included in the budget; but if that organization should cease then all of the assets would go back to the owners or stockholders. He explained it would in essence be an outlay of the federal government. He also noted there are situations where the federal government may own all the assets because they were purchased with federal monies. Mr. Reid agreed with Mr. Werfel and the principles should be looked at together and the term “and” should be used.

Mr. Farrell explained that he believes “and” would be appropriate for certain situations while “or” would be appropriate for other situations. Mr. Werfel agreed and suggested perhaps the task force could address this issue. Mr. Werfel explained the example where a grantee purchases assets with federal funds and the federal government has an interest in those assets and does exercise some forms of control. However, he stated no one would believe the grantee should be consolidated with the federal entity. Mr. Werfel suggested the concept of control is very complicated.....

CONCLUSION: Staff will move forward with forming a federal entity task force. Staff (and the task force) will concentrate on the areas identified by Board members for consideration.....Staff will report back to the Board after meeting with the task force.

Excerpt from Staff Issue Paper April 2008

General principles stand alone

Staff explained the Board requested the task force to assess if the term “and” should be used versus “or” so that all conditions must be met because it had been a concern noted by a Board member. The task force discussed this issue in conjunction with their detailed discussion of each of the

principles. The task force believed each general principle should stand alone. The task force agreed meeting any one of the general principles would mean inclusion. The task force members also agreed that ownership and directly financially accountable should stand alone and be considered separate from the control general principle. The task force believed use of the term “or” would allow for situations presently or in the future where the federal government has control but is not financially accountable. Next Steps: Staff will seek Board comment and approval of this approach at the next Board meeting.

#### Excerpt from April 2008 Minutes

Staff noted the Board had previously approved staff’s plan to form a task force to assist in developing the proposed standard on the boundaries of the reporting entity and consolidation.

Staff explained that a task force was formed with members from the CFO, OIG, and IPA communities as well as specific representatives from agencies that deal with quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies. Staff noted the first federal entity task force meeting was held in late February.

Staff noted a summary of the first meeting, including a detailed list of participants was included in the briefing materials. The summary of key points developed by the task force included: and other disclosures.....

- General principles stand alone

Mr. Allen requested the Board’s feedback on the update and staff recommendation for next steps. He explained that if Board members have any concerns with the next steps, it should be conveyed.....

CONCLUSION: The Board approved staff recommendations for next steps in the Federal Entity project....

Staff notes that initial feedback from members since the last Board meeting suggests this issue may need to be confirmed because one member suggested the word “and “ be added to paragraph 22 b. Another member noted concern the principles may be too inclusive when looked at individually.

Some may view this as reconsideration, based on the history presented. Staff’s recommendation is consistent with that of the task force decision noted above and presented to the Board. As detailed in the introduction to the indicative principles, entities will be assessed against all indicative principles in determining whether the entity should be consolidated and determining the proper presentation. The main question is simply, is meeting one indicative principle enough for inclusion in the boundary? The determination of the appropriate financial presentation and display would be made after considering the entity against all three indicative principles collectively.

Staff would like to confirm the Board’s agreement that meeting one indicative principle is sufficient for inclusion in the boundary of the government-wide reporting entity.

Alternatively, if the Board believes an entity must meet all indicative principles for an entity to be within the boundary of the government-wide reporting entity, then it would be revised as follows:

## ALTERNATIVE

### Government-wide Reporting Entity Indicative Principles and Criteria

21. Entities not meeting the conclusive principle above may still fall within the boundaries of the government-wide reporting entity; however, additional assessment against the indicative principles is required to ascertain if it is within the boundaries of the government-wide reporting entity.

22. The government-wide reporting entity includes entities meeting **all** of the following indicative principles, if applicable<sup>6</sup>:

- a. Established by the federal government.
- b. In which the federal government has a majority ownership interest.
- 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, determinations will require the use of professional judgment and are based on the understanding of the relationship with the entity.

24. The final assessment of whether the entity is within the boundaries of the government-wide reporting entity is made after considering the entity against all three indicative principles collectively in the aggregate.

### **QUESTION for the Board-**

**Does the Board agree with staff’s proposed language for the introduction in applying the indicative principles —specifically does the Board believe that meeting one indicative principle results in meeting the test for being within the boundary or does the Board prefer the alternative approach?**

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### ***Issue 5: Tone of Indicative Principles (“includes” or “may include”)***

Along the same lines of the previous issue, staff would like to confirm with the Board its position on the proper tone or how the indicative principles should be written. In Draft ED, staff proposes to use “includes” throughout the indicative principles section. For example:

“The government-wide reporting entity **includes** entities established by the federal government.”

However, the indicative principles may be written in a suggestive manner such as “may include” and the flexible manner would be as follows:

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<sup>6</sup> For example, there may be instances where a majority ownership may not be applicable.

“The government-wide reporting entity **may include** entities established by the federal government.”

As noted in the Introduction to the Indicative Principles section and referenced throughout, there is much judgment required in application and assessment of the indicative principle. Therefore, staff believes there may be consequences by placing “may include” in establishing the boundary because this is the first step in the process. The unique situations would be addressed in the consolidation and presentation criteria that would also potentially pull out certain classes of transactions such as Temporary, Museums, and other unique classes to be defined perhaps based on governance or financial differences, etc.

Staff also believes that it appears language such as this (“may include”) although it would be within a Statement may not be much more enforceable than what currently resides in SFFAC 2. While SFFAC 2 offers that no single indicative criterion is a conclusive criterion, one must also keep in mind that SFFAC 2 does not offer alternate or different ways (other than consolidation) that an entity may be part of the federal reporting entity.

**QUESTION for the Board-**

**Does the Board agree with staff’s proposed tone/ language for the indicative principle?**

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***Issue 6: Clarification of 1<sup>st</sup> Indicative Principle- Legal status of entities***

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 this issue since establishing an entity “outside” the federal government often is directed at something very different than financial reporting while the Statement is directed at ensuring 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 their 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.

**NOTE: Attachment 1** to this paper includes copies of the tables provided in the GAO Report *Federally Created Entities-An Overview of Key Attributes* (GAO Report 10-97) that was issued in October 2009. Staff believes Table 9: Other Federally Established Organizations may be a good resource as it provides a list of federally created entities that did not fit under the other categories identified in the report. These entities would be captured by the first indicative principle for inclusion in the boundary of the government-wide reporting entity (unless an exception was provided for a certain class or entity type.)

Staff proposes the following language for the first indicative principle:

*Established by the Federal Government*

24. The government-wide reporting entity includes entities established by the federal government. The phrase “established by the federal government” means that an entity takes its existence or is formed through the operation of federal statute or regulation or by some person or organization either required or authorized by federal statute or regulation to establish the entity. This includes the act of incorporation or other official filing or notice that an entity is established.
25. 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).<sup>7</sup>
26. From among all entities established by the federal government, the government-wide reporting entity in particular includes 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 (the Supreme Court and inferior courts established by law).
27. Federal statutes or regulations that establish (or require or authorize the establishment of) an entity within a branch (or within another entity) of the federal government often clearly state so.<sup>8</sup> On the other hand, federal statutes or regulations may state that an entity established by the federal government is “private” or that it is “not an agency or instrumentality of the United States

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<sup>7</sup> Such entities would not include those whose existence preceded federal recognition, such as many federally chartered corporations that received a congressional charter under Title 36 of the U.S. Code because many of these organizations were incorporated under state law before receiving their congressional charter (e.g., the Boy Scouts of America). For examples of different types of entities established by the federal government and how they were established, see GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: Oct. 2009).

<sup>8</sup> 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.

Government.”<sup>9</sup> However, in other cases, the applicable federal statutes or regulations may not be as clear, requiring additional analysis. Federal statutes or regulations may omit any express statement about the location of the entity as either within or outside the federal government.

28. While all entities established by the federal government are within the boundaries of the government-wide reporting entity, those entities that exist as a matter of law within the federal government have a closer relationship. The nature of this relationship is relevant in assessing the presentation of the entity in the GPFFR of the government-wide reporting entity, as detailed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

## **QUESTION for the Board-**

**Does the Board agree with the clarification of the first indicative principle – legal status of entities?**

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### ***Issue 7: Clarification of 2<sup>nd</sup> Indicative Principle—Majority Ownership***

As you may recall, in an earlier proposal, ownership was included with the principle ‘in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule entitled *Federal Programs by Agency and Account*’ and grouped under “directly financially accountable for” but the Board agreed that in the budget should be a conclusive principle by itself and majority ownership should be an indicative principle.

The Board also noted some concern with the indicative principles Ownership and Control as written in light of recent activities with economic stabilization. Certain Board members expressed concern with the potential consolidation of many previously unconsolidated organizations based on the proposed principles and related criteria. Although much outreach had already taken place on the proposed general principles via a survey to the financial management community, this work pre-dated many of the economic stabilization activities and the Board suggested additional outreach efforts to consider the complexities of ownership and control criteria especially as it may be applied in assessing the federal government’s roles. In response to these concerns, staff presented a paper on allowing an exception for certain activities to the task force.

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<sup>9</sup> 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 for a statute or set of statutes, the entity may be considered to be part of the federal government for certain purposes and should be assessed against the indicative principles.

The task force discussed the paper along with alternative presentations and disclosures. The task force agreed with the notion that consolidating organizations related to the federal government interventions may not be the most meaningful way to present but suggested the exemptions could be tied to the fact the interventions are not expected to be permanent. This issue is addressed further under Temporary Exclusion.

As you may also recall or as brief background for new members, some of the other standard setters group the notion of ownership with control, but based on the task force recommendation, the FASAB Board agreed this would be addressed as a separate principle.

Also as a brief history, staff provides the following excerpt from SFFAC 2 par.44 which lists indicative criteria:

It is owned by the Federal Government, particularly if the ownership is of the organization and not just the property. Ownership is also established by considering who is at risk if the organization fails, or identifying for whom the organization's employees work.

Also, the FASAB Glossary provides the following definition for "ownership interest"

Ownership Interest The possession of substantially all of the benefits and risks incident to ownership.

Considering the objective of this ED is to address the boundaries of the reporting entity, staff was not certain as to the level of detail and if the Board wants to address certain accounting issues. For example, staff was not certain if the Board believed it would be appropriate to address how minority federal ownership should be accounted for within this ED or if simply saying it should be accounted for in accordance with GAAP is appropriate because it is outside the boundary of the government-wide reporting entity.

Staff proposes the following language for the second indicative principle:

*Majority Ownership Interest*

29. The federal government may acquire an ownership interest<sup>10</sup> in an entity. An ownership interest is a legal claim on the net residual assets of an entity or holding shares or other formal equity structure.
30. 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 ownership interest with voting rights or ownership interest without voting rights.

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<sup>10</sup> Ownership interest is defined as the possession of substantially all of the benefits and risks incident to ownership, *FASAB Glossary FASAB Pronouncements as Amended as of June 30, 2009*.

31. An ownership interest with over 50% of the votes or 50% of the net residual assets<sup>11</sup> of an entity is considered a majority and within the boundaries of the government-wide reporting entity.<sup>12</sup>
32. The federal government may take temporary ownership which would not meet the indicative principle, see section Exception—Temporary Conditions of Indicative Principles.

**QUESTIONS for the Board-**

**Does the Board agree with the language for the second indicative principle – majority ownership?**

**Are there particular areas related to ownership the Board believes should be expanded upon or addressed further in the Statement?**

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**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: Clarification of 3rd Indicative Principle—Control***

As discussed under the Ownership principle, the Board had noted some concern with the indicative principles Ownership and Control in light of recent activities with economic

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<sup>11</sup> For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

<sup>12</sup> Ownership interests 50% or less would not be considered within the boundaries of the government-wide reporting entity. These interests would be accounted for in accordance with appropriate accounting standards per the GAAP hierarchy.

stabilization. This issue was addressed by broadening the definition of “temporary” so that it included intervention activities not expected to be permanent.

Other than that particular issue, there really haven’t been any major issues brought to staff’s attention regarding the control principle. This particular principle is the most subjective and involves the most judgment, so naturally it would involve the most criteria for application.

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### ***Issue: Clarification of the Misleading to Exclude Principle***

The Misleading to Exclude principle ensures the Statement will accommodate rare or unique situations that may not have been contemplated or that may arise in the future. Members had previously agreed this principle should be included, but perhaps should only 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.

Staff proposes the following language

#### Government-wide Reporting Entity Misleading to Exclude Principle

1. The government-wide 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.
2. 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 government-wide financial report would be misleading or incomplete if the entity were excluded.<sup>13</sup>
3. Disclosure requirements for entities meeting this are discussed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

#### **Government-wide Reporting Entity Presentation and Disclosure Requirements**

4. For entities meeting the Misleading to Exclude principle, the following should be disclosed:
  - a. Name and description of the entity;

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<sup>13</sup> Although situations such as this would be considered unique or rare, this Statement provides for situations that could potentially arise.

- b. Nature of the federal government’s relationship with the entity and if applicable, the percentage of ownership interest and voting rights or nature of control; 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 government-wide reporting entity resulting from the relationship.
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***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 are 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.*

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***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.*

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### ***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.

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**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.

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**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.

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**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.

Possible Amendment to SFFAS 6 reversionary interest FFRDC

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**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.

*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.*

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***Issue: Intelligence Community Entities***

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***Issue: General Fund***

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***Issue: Other categories/ relationships to address***

Jointly Funded Museums and Performing Arts Organizations and Universities

The discussion and most of the language in the Draft ED had been written to fit examples such as the Smithsonian and other institutions (museums and performing arts) such as this. Certain members expressed concern and questioned if there were perhaps other types of entities that may be partially in the budget.

The *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account* is a lengthy document—over 500 pages. Staff performed a search looking for known FFRDCs (as this was one of the types of entities mentioned by members) and did not find an FFRDC listed in the schedule. In performing the search, staff noted Howard University (receives approximately \$230 million per year or 28% of its revenue) and Gallaudet University (receives approximately \$110 million per year or 65% of its revenue) listed under the Department of Education. Based on a review of the history, it appears the schools were established by the federal government with a promise for continued annual appropriations. Therefore it appears the universities may fall within the same parameters.

Staff also confirmed with our survey results that no other issues or examples of had been brought to our attention. Staff believes the best approach is to address the known problem versus addressing a black whole of unknowns in the Statement. However, staff suggests the language of the standard avoid using the terms “partially in the budget” and instead address the known organizations “Jointly Funded Museums and Performing Arts Organizations and Universities” in the Statement.

Staff also suggests we pose a question to respondents that would address this issue along with other potential questions about the conclusive principle. Staff suggests the following questions:

- The Statement provides that an entity listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account* is within the boundaries of the government-wide reporting entity. Do you agree or disagree? Please explain your answer.
- The Statement provides for unique situations in the conclusive principle that broadly may affect certain entities (such as entities that receive a subsidy or federal financial assistance and entities should be assessed against the indicative principles) and it addresses that certain museums and performing arts organizations and universities that receive significant non federal funding. Do you agree or disagree? Please explain your answer.
- Are there other unique situations that should be addressed within the conclusive principle? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Staff believes the language in the conclusive principle should be written specifically to fit the examples like the Smithsonian, Holocaust, National Gallery of Art, etc. Staff proposes the following language:

Certain museums and performing arts organizations and universities may be in the *Federal Programs by Agency and Account* schedule that receives significant funding from non-federal sources such as donations.<sup>[FN 1]</sup> Although these entities are within the boundaries of the government-wide reporting entity, these entities are dependent on or supported by non-federal sources in addition to federal government funding are unique and discussed in the section entitled “Jointly Funded Museums and Performing Arts Organizations and Universities” under Government-wide Reporting Entity Presentation and Disclosure Requirements.

<sup>[FN 1]</sup> For example, a museum may receive additional funding from non-federal sources (donations or endowment trust funds) that are not included in the budget.

Staff notes, as agreed at the April meeting, the presentation or display would be addressed at the end of the federal entity project along with other unique relationships.

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### ***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.*

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**ISSUE: LOOK at Par. 33 in conjunction w/component entity reporting & put this entire section as an appendix to proposed Statement**

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 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.<sup>14</sup>

36. Likewise, some programs are coterminous, i.e., share the same boundaries, with an organization or sub-organization, while other programs—such as student loan programs—are the component for which resources are deployed, are responsible for achieving objectives, and/or are of great interest to outsiders. In both instances, the financial operations and results of the program might warrant highlighting or even separate reporting by the organization or suborganization which manages the program.

37. Financial statements for organizationally-based reporting entities may be audited and issued to external parties, unaudited and used for internal management purposes, or, perhaps to be more relevant and meaningful, combined with financial statements from other organizationally-based reporting entities.

38. The ultimate aggregation of 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.

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<sup>14</sup> For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenues would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund, 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.

The GAO Report *Federally Created Entities-An Overview of Key Attributes* (GAO Report 10-97) was issued in October 2009. Staff provided an overview in December 2009 and provided a summary of key points for your consideration. Staff noted the report would be a good resource for entities as it provides a list of entities. The report details GAO identified 219 federally created entities and grouped the entities into the following seven categories or types:

1. **Executive departments**-established by statute and the heads comprise the President's Cabinet.
2. **Other executive branch entities**- organizations in the executive branch of the U.S. government under general constitutional and legal principles that are wholly controlled by the federal government and are not executive departments or government corporations. The report identified 88 of these entities.
3. **Government corporations**- entities established by the U.S. government in a corporate form by a federal charter for a public purpose. GAO identified 23 government corporations, each owned in whole or in part by the federal government. The report notes that government corporations are generally not dependent upon appropriations and they typically are predominantly of a business nature, produce revenue and are potentially self-sustaining, involve a large number of business-type transactions with the public, and require greater flexibility than the appropriations process ordinarily permits. However, Congress is not bound by these characteristics and there are variations in the accepted definition of a government corporation.
4. **Nonappropriated fund instrumentalities (NAFIs)**- entities that can be established under authority or sanction of an existing federally created entity. The report notes there exists a large but unknown number of NAFIs and for purposes of the report, there is only 1 NAIFI recognized in the total 219 federally created entities to represent the unknown number. The report also details there is no official definition for NAIFI and an example would be a military post exchange and other organizations created to further performance of governmental functions.
5. **Government-sponsored enterprises**- federally chartered organizations established to be privately owned and operated. These financial institutions are authorized to make loans or loan guarantees for limited purposes created by Congress. These quasi-public entities are regulated by specialized federally created entities. While there is no broad-based statutory definition of GSEs, the Congressional Budget Act of 1974, as amended, provides a definition for purposes of the federal budget that is commonly used. Applying this definition, OMB has identified five GSEs, including the three that GAO identified in the report (GAO excluded the Farm Credit System and the Federal Home Loan Bank System, because they are not composed of multiple component federally created entities, each of which is listed in the report under other types.)
6. **Federally funded research and development centers (FFRDCs)**- private entities that federal entities have established to meet long-term research needs. The report identified 39 FFRDCs, with the Department of Defense and Department of Energy managing most. The report notes while FFRDCs generally are operated by their private entity administrators under pertinent state

laws, the federal government contracts and related federal acquisition regulations applicable to FFRDCs provide for higher levels of oversight and control than otherwise would be the case for federal government contractors.

7. **Other federally established organizations-** The report identified 50 additional federally created entities that did not fit under any of the other six federally created entity types in the report. The entities are private, nonprofit corporations, institutes, banks, funds, foundations, and other organizations chartered, in their original form, by federal statute or created by or at the direction of an existing federally created entity and are typically controlled by federal government. The report explains there is no single source of information that identifies all such entities and accordingly, the report may not have identified all that exist. Table 9 lists the other federally established organizations

**The Tables that follow are excerpts from the GAO report, *Federally Created Entities-An Overview of Key Attributes*. Staff believes the listings of entities would be helpful as the Board considers the first indicative principle.**

Table 1: Overview of Entity Types

Table 2: Executive Departments

Table 3: Other Executive Branch Entities

Table 4: Wholly Owned GCCA Corporations

Table 5: Mixed-Ownership GCCA Corporations

Table 6: Non-GCCA Government Corporations

Table 7: Government-Sponsored Enterprises

Table 8: Federally Funded Research and Development Centers

Table 9: Other Federally Established Organizations

**Table 1: Overview of Entity Types**

Entity types (and number within each)	Key attributes		List of entities
	Ownership and control	Mission and operations	
Executive departments (15)	U.S. government	Broad areas of responsibility, often carried out by multiple component organizations	See table 2
Other executive branch entities (88)	U.S. government	Generally involve a specific program or regulatory area	See table 3
Government corporations (23): Wholly owned and Non-GCCA (18)	U.S. government	Generally provide specified goods or services via business-type operations	See tables 4 and 6
Mixed-ownership (5)	Mixed ownership and shared control—Private and U.S. government	Generally provide specialized financial services via business-type operations	See table 5
Nonappropriated fund instrumentalities (1) (actual number unknown)	U.S. government	Generally provide specific services to U.S. government personnel and their dependents via business-type operations	No listing
Government-sponsored enterprises (3)	Privately owned and shared control—Private and U.S. Government	Provide primary credit markets with funding via securities-related activities run by private for-profit companies	See table 7
Federally funded research and development centers (FFRDCs) (39)	Privately owned and administered, but managing executive agency exercises considerable control	Long-term research and development activities run by private companies or educational institutions under contract with managing executive agency	See table 8
Other federally established organizations (50)	Privately owned and shared control—private and U.S. government	Generally provide specific services to targeted groups via educational, charitable, or business-type operations	See table 9

**Table 2: Executive Departments**

1. Department of Agriculture	6. Department of Health and Human Services	11. Department of Labor
2. Department of Commerce	7. Department of Homeland Security	12. Department of State
3. Department of Defense	8. Department of Housing and Urban Development	13. Department of Transportation
4. Department of Education	9. Department of the Interior	14. Department of the Treasury
5. Department of Energy	10. Department of Justice	15. Department of Veterans Affairs

**Table 3: Other Executive Branch Entities**

1	Advisory Council on Historic Preservation	45	National Archives and Records Administration
2	American Battle Monuments Commission	46	National Capital Planning Commission
3	Appalachian Regional Commission	47	National Council on Disability
4	Architectural and Transportation Barriers Compliance Board	48	National Credit Union Administration
5	Armed Forces Retirement Home	49	National Foundation on the Arts and the Humanities
6	Barry Goldwater Scholarship and Excellence in Education Foundation	50	National Labor Relations Board
7	Board of Governors of the Federal Reserve System	51	National Mediation Board
8	Broadcasting Board of Governors	52	National Science Foundation
9	Central Intelligence Agency	53	National Transportation Safety Board
10	Chemical Safety and Hazard Investigation Board	54	Northern Border Regional Commission
11	Christopher Columbus Fellowship Foundation	55	Northern Great Plains Regional Authority
12	Commission for the Preservation of America's Heritage Abroad	56	Nuclear Regulatory Commission
13	Commission of Fine Arts	57	Nuclear Waste Technical Review Board
14	Commission on Security and Cooperation in Europe, <i>a.k.a.</i> The Helsinki Commission	58	Occupational Safety and Health Review Commission
15	Committee for Purchase From People Who Are Blind or Severely Disabled	59	Office of Government Ethics
16	Commodity Futures Trading Commission	60	Office of Navajo and Hopi Indian Relocation
17	Consumer Product Safety Commission	61	Office of Personnel Management
18	Court Services and Offender Supervision Agency for the District of Columbia	62	Office of Special Counsel
19	Defense Nuclear Facilities Safety Board	63	Office of the Director of National Intelligence
20	Delta Regional Authority	64	Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects
21	Denali Commission	65	Peace Corps
22	District of Columbia Public Defender Service	66	Postal Regulatory Commission
23	Election Assistance Commission	67	Privacy and Civil Liberty Oversight Board
24	Environmental Protection Agency	68	Railroad Retirement Board
25	Equal Employment Opportunity Commission	69	Securities and Exchange Commission
26	Executive Office of the President	70	Selective Service System
27	Farm Credit Administration	71	Small Business Administration
28	Federal Communications Commission	72	Social Security Administration
29	Federal Election Commission	73	Southeast Crescent Regional Commission
30	Federal Housing Finance Agency	74	Southwest Border Regional Commission

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31	Federal Labor Relations Authority	75	U.S. Agency for International Development
32	Federal Maritime Commission	76	U.S. Arctic Research Commission
33	Federal Mediation and Conciliation Service	77	United States Commission on Civil Rights
34	Federal Mine Safety and Health Review Commission	78	United States Court of Appeals for the Armed Forces
35	Federal Retirement Thrift Investment Board	79	United States Court of Appeals for Veterans Claims
36	Federal Trade Commission	80	United States Holocaust Memorial Museum
37	General Services Administration	81	United States Interagency Council on Homelessness
38	Harry S. Truman Scholarship Foundation	82	United States International Trade Commission
39	James Madison Memorial Fellowship Foundation	83	United States Postal Service
40	Japan-United States Friendship Commission	84	United States Tax Court
41	Marine Mammal Commission	85	United States Trade and Development Agency
42	Merit Systems Protection Board	86	Utah Reclamation Mitigation and Conservation Commission
43	Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	87	Vietnam Education Foundation
44	National Aeronautics and Space Administration	88	White House Commission on the National Moment of Remembrance

**Table 4: Wholly Owned GCCA Corporations**

1. Commodity Credit Corporation	8. International Clean Energy Foundation
2. Community Development Financial Institutions Fund	9. Millennium Challenge Corporation
3. Corporation for National and Community Service	10. Overseas Private Investment Corporation
4. Export-Import Bank of the United States	11. Pension Benefit Guaranty Corporation
5. Federal Crop Insurance Corporation	12. Saint Lawrence Seaway Development Corporation
6. Federal Prison Industries, Incorporated	13. Federal Housing Administration Fund <sup>a</sup>
7. Government National Mortgage Association	14. Tennessee Valley Authority

Source: 31 U.S.C. § 9101 and note and GAO analysis, as of September 2009.

<sup>a</sup>This is a wholly owned government corporation headed by the Federal Housing Administrator who also serves as Assistant Secretary for Housing in the Department of Housing and Urban Development

**Table 5: Mixed-Ownership GCCA Corporations**

1. Federal Deposit Insurance Corporation	4. National Credit Union Administration Central Liquidity Facility
2. Federal Home Loan Banks (12) <sup>a</sup>	5. Resolution Funding Corporation
3. Financing Corporation	

Source: 31 U.S.C. § 9101 and note and GAO analysis, as of September 2009.

<sup>a</sup>There are 12 federal Home Loan Banks in the Federal Home Loan Bank system.

**Table 6: Non-GCCA Government Corporations**

1. African Development Foundation
2. Inter-American Foundation
3. Presidio Trust
4. Valles Caldera Trust

**Table 7: Government-Sponsored Enterprises**

1. Fannie Mae (formerly known as the Federal National Mortgage Association)
2. Federal Home Loan Mortgage Corporation (Freddie Mac)
3. Federal Agricultural Mortgage Corporation (Farmer Mac)

**Table 8: Federally Funded Research and Development Centers**

	<b>Federally funded research and development center</b>	<b>Managing executive agency</b>	<b>Private entity administrator</b>
1	C3I Federally Funded Research & Development Center	Defense, Office of the Secretary of Defense	MITRE Corp.
2	Institute for Defense Analyses Studies Federally Funded Research and Development Center	Defense, Office of the Secretary of Defense	Institute for Defense Analyses
3	National Defense Research Institute	Defense, Office of the Secretary of Defense	RAND Corp.
4	Aerospace Federally Funded Research and Development Center	Defense, Air Force	Aerospace Corp.
5	Lincoln Laboratory	Defense, Air Force	Massachusetts Institute of Technology
6	Project Air Force	Defense, Air Force	RAND Corp.
7	Arroyo Center	Defense, Army	RAND Corp.
8	Software Engineering Institute	Defense, Army	Carnegie Mellon University
9	Center for Naval Analyses	Defense, Navy	CNA Corp.
10	Institute for Defense Analyses Communications and Computing Federally Funded Research and Development Center	Defense, NSA	Institute for Defense Analyses
11	Ames Laboratory	Energy	Iowa State University of Science and Technology
12	Argonne National Laboratory	Energy	University of Chicago
13	Brookhaven National Laboratory	Energy	Brookhaven Science Associates, Inc.
14	Ernest Orlando Lawrence Berkeley National Laboratory	Energy	University of California
15	Fermi National Accelerator Laboratory	Energy	Universities Research Association, Inc.
16	Idaho National Engineering and Environmental Laboratory	Energy	Bechtel BWXT Idaho, LLC
17	Lawrence Livermore National Laboratory	Energy	University of California
18	Los Alamos National Laboratory	Energy	University of California
19	National Renewable Energy Laboratory	Energy	Midwest Research Institute; Battelle Memorial Institute; Bechtel National, Inc.
20	Oak Ridge National Laboratory	Energy	UT-Battelle, LLC
21	Pacific Northwest National Laboratory	Energy	Battelle Memorial Institute
22	Princeton Plasma Physics Laboratory	Energy	Princeton University
23	Sandia National Laboratories	Energy	Sandia Corp., a subsidiary of Lockheed Martin, Corp.
24	Savannah River Technology Center	Energy	Westinghouse Savannah River Co.
25	Stanford Linear Accelerator Center (SLAC National Accelerator Laboratory)	Energy	Stanford University

26	Thomas Jefferson National Accelerator Facility (Southeastern Universities Research Association, Inc.)	Energy	Southeastern Universities Research Association, Inc.
27	National Cancer Institute at Frederick	Health and Human Services, NIH	Science Applications International Corp.; Charles River Laboratories, Inc.; Data Management Services, Inc.; Wilson Information Services, Inc.
28	Homeland Security Studies and Analysis Institute	Homeland Security	Analytic Services, Inc.
29	Homeland Security Systems Engineering and Development Institute	Homeland Security	MITRE Corp.
30	National Biodefense Analysis and Countermeasures Center	Homeland Security	Battelle National Biodefense Institute
31	Jet Propulsion Laboratory	National Aeronautics and Space Administration	California Institute of Technology
32	National Astronomy and Ionosphere Center	National Science Foundation	Cornell University
33	National Center for Atmospheric Research	National Science Foundation	University Corporation for Atmospheric Research
34	National Optical Astronomy Observatories	National Science Foundation	Association of Universities for Research in Astronomy, Inc.
35	National Radio Astronomy Observatory	National Science Foundation	Associated Universities, Inc.
36	Science and Technology Policy Institute	National Science Foundation	Institute for Defense Analyses
37	Center for Nuclear Waste Regulatory Analyses	Nuclear Regulatory Commission	Southwest Research Institute
38	Center for Advanced Aviation System Development	Transportation, FAA	MITRE Corp.
39	Internal Revenue Service (IRS) Federally Funded Research and Development Center	Treasury, IRS	Internal Revenue Service (IRS) Federally Funded Research and Development Center (MITRE Corp., Center for Enterprise Modernization)

**Table 9: Other Federally Established Organizations**

1	Agricultural Commodity Organizations (e.g., U.S. Popcorn Board) (18) <sup>a</sup>	26	National Exchange Carriers Association
2	Agricultural Credit Bank	27	National Fallen Firefighters Foundation
3	Alaska Native Corporations (195) <sup>b</sup>	28	National Fish and Wildlife Foundation
4	American National Red Cross	29	National Forest Foundation
5	American Registry of Pathology	30	National Foundation for the Centers for Disease Control and Prevention (a.k.a. CDC Foundation)
6	Amtrak	31	National Fund for Excellence in American Indian Education
7	Congressional Award Board	32	National Fund for Medical Education
8	Corporation for Public Broadcasting	33	National Park Foundation
9	Corporation for the Promotion of Rifle Practice and Firearms Safety	34	National Recording Preservation Foundation
10	Farm Credit Banks (5)	35	National Technical Institute for the Deaf
11	Farm Credit System Insurance Corporation	36	National Veterans Business Development Corporation
12	Federal Farm Banks Funding Corporation	37	Neighborhood Reinvestment Corporation
13	Federal Reserve Banks (12)	38	OnPoint Technologies
14	Foundation for the National Institutes of Health	39	Public Company Accounting Oversight Board
15	Gallaudet University	40	Reagan-Udall Foundation for the Food and Drug Administration
16	Help America Vote Foundation	41	Red Planet Capital
17	Henry M. Jackson Foundation for the Advancement of Military Medicine	42	Securities Investor Protection Corporation
18	Howard University	43	Smithsonian Institution
19	In-Q-Tel	44	State Justice Institute
20	Institute of American Indian and Alaska Native Culture and Arts	45	Telecommunications Development Fund
21	International Center for Middle Eastern-Western Dialogue	46	United States Capitol Historical Society
22	Legal Services Corporation	47	United States Enrichment Corporation
23	Military Relief Associations (e.g., Army Emergency Relief) <sup>c</sup>	48	United States Institute of Peace
24	National Academy of Sciences	49	United States Olympic Committee
25	National Consumer Cooperative Bank (dba NCB)	50	Veterans Affairs Nonprofit Research and Education Corporations (86) <sup>d</sup>

Source: GAO analysis, as of September 2009.

aAccording to the Web site of the U.S. Department of Agriculture's Agricultural Marketing Service, there are at least 18 research and promotion programs with boards or councils established by departmental order. See [www.ams.usda.gov](http://www.ams.usda.gov) (last visited Oct. 23, 2009). For background on the operation of these programs, see, for example, GAO, *Agricultural Marketing: Federally Authorized Commodity Research and Promotion Programs*, GAO/RCED-94-63 (Washington, D.C.: Dec. 29, 1993).



Federal Accounting Standards Advisory Board

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**Government-wide Reporting Entity and  
Component Reporting Entities**

**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

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation 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](http://www.fasab.gov).

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## Proposed Standards

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### 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** The term “federal reporting entity,” which refers to both the government-wide reporting entity and component reporting entities is an organization that issues a General Purpose Federal Financial Report (GPFFR) because either there is a statutory or administrative requirement to prepare the GPFFR or it chooses to prepare one. SFFAC 2 explains for the entity to be a reporting entity,<sup>4</sup> 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.

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<sup>4</sup> SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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- 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.
11. **Government-wide Reporting Entity** The government-wide reporting entity includes 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<sup>5</sup> 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 entity<sup>6</sup>) 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 Government-wide Reporting Entity

14. Clearly defining the boundary of the government-wide reporting entity ensures that the financial reports contain all the information essential for fair presentation of the financial position and results of operations.
15. Determining whether an entity is within the boundary of the government-wide 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

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<sup>5</sup> The larger federal reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>6</sup> 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.

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boundaries of the government-wide 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 government-wide reporting entity, additional analysis is required to determine which entities should be consolidated and which require alternative display presentations or disclosures as discussed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

### Government-wide Reporting Entity Conclusive Principle and Criteria

17. An entity listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account*<sup>7</sup> is within the boundaries of the government-wide reporting entity.
18. However, entities listed in the *Federal Programs by Agency and Account* schedule that only receive a subsidy or other federal financial assistance<sup>8</sup> would not be considered within the boundaries of the government-wide reporting entity based on the conclusive principle. 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.
19. If an entity meets the conclusive principle, no further assessment against the indicative principles is required; it is considered within the boundaries of the government-wide reporting entity.

### Government-wide Reporting Entity Indicative Principles and Criteria

20. Entities not meeting the conclusive principle above may still fall within the boundaries of the government-wide reporting entity; however, additional assessment against the indicative principles is required to ascertain if it is within the boundaries of the government-wide reporting entity.

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<sup>7</sup> Entities should include any financing accounts associated with the organization although they may not be specifically included in the schedule.

<sup>8</sup> 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.

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21. The government-wide reporting entity includes entities meeting any of the following indicative principles:
  - a. Established by the federal government.
  - b. In which the federal government has a majority ownership interest.
  - c. Over which the federal government has the ability to exercise control with expected benefits or risk of loss.
22. Each indicative principle requires criteria and guidance to assist in application. Further, determinations will require the use of professional judgment and is based on the understanding of the relationship with the entity.
23. The final assessment of the appropriate financial presentation and display would be made after considering the entity against all three indicative principles collectively in the aggregate, along with other criteria. This assessment is discussed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

### *Established by the Federal Government*

24. The government-wide reporting entity includes entities established by the federal government. The phrase “established by the federal government” means that an entity takes its existence or is formed through the operation of federal statute or regulation or by some person or organization either required or authorized by federal statute or regulation to establish the entity. This includes the act of incorporation or other official filing or notice that an entity is established.
25. 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).<sup>9</sup>

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<sup>9</sup> Such entities would not include those whose existence preceded federal recognition, such as many federally chartered corporations that received a congressional charter under Title 36 of the U.S. Code because many of these organizations were incorporated under state law before receiving their congressional charter (e.g., the Boy Scouts of America). For examples of different types of entities

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26. From among all entities established by the federal government, the government-wide reporting entity in particular includes 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 (the Supreme Court and inferior courts established by law).
27. Federal statutes or regulations that establish (or require or authorize the establishment of) an entity within a branch (or within another entity) of the federal government often clearly state so.<sup>10</sup> On the other hand, federal statutes or regulations may state that an entity established by the federal government is “private” or that it is “not an agency or instrumentality of the United States Government.”<sup>11</sup> However, in other cases, the applicable federal statutes or regulations may not be as clear, requiring additional analysis. Federal statutes or regulations may omit any express statement about the location of the entity as either within or outside the federal government.
28. While all entities established by the federal government are within the boundaries of the government-wide reporting entity, those entities that exist as a matter of law within the federal government have a closer relationship. The nature of this relationship is relevant in assessing the presentation of the entity in the GPPFR of the government-wide reporting entity, as detailed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

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established by the federal government and how they were established, see GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: Oct. 2009).

<sup>10</sup> 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.

<sup>11</sup> 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 for a statute or set of statutes, the entity may be considered to be part of the federal government for certain purposes and should be assessed against the indicative principles.

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### *Majority Ownership Interest*

29. The federal government may acquire an ownership interest<sup>12</sup> in an entity. An ownership interest is a legal claim on the net residual assets of an entity or holding shares or other formal equity structure.
30. 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 ownership interest with voting rights or ownership interest without voting rights.
31. An ownership interest with over 50% of the votes or 50% of the net residual assets<sup>13</sup> of an entity is considered a majority and within the boundaries of the government-wide reporting entity.<sup>14</sup>
32. The federal government may take temporary ownership which would not meet the indicative principle, see section Exception—Temporary Conditions of Indicative Principles.

### *Control with Expected Benefits (or Risk of Loss)*

33. 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)<sup>15</sup> to the federal reporting entity. Entities controlled by the federal government are considered within the boundaries of the government-wide reporting entity.
34. 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.

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<sup>12</sup> Ownership interest is defined as the possession of substantially all of the benefits and risks incident to ownership, *FASAB Glossary FASAB Pronouncements as Amended as of June 30, 2009*.

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

<sup>14</sup> Ownership interests 50% or less would not be considered within the boundaries of the government-wide reporting entity. These interests would be accounted for in accordance with appropriate accounting standards per the GAAP hierarchy.

<sup>15</sup> 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.

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35. 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.
36. 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, 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

37. 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.
38. There are certain indicators<sup>16</sup> 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.

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<sup>16</sup> The indicators noted in par. 38 and 39 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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39. 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;
  - 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

40. 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.
41. 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.

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- 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.
42. 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.
43. 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.
44. In addition, the federal government may take temporary control which would not meet the indicative principle, see section Exception—Temporary Conditions of Indicative Principles

### Government-wide Reporting Entity Misleading to Exclude Principle

45. The government-wide 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.
46. 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 government-wide financial report would be misleading or incomplete if the entity were excluded.<sup>17</sup>

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<sup>17</sup> Although situations such as this would be considered unique or rare, this Statement provides for situations that could potentially arise.

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47. Disclosure requirements for entities meeting this are discussed under Government-wide Reporting Entity Presentation and Disclosure Requirements.

### **Government-wide Reporting Entity Presentation and Disclosure Requirements**

48. 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.
49. The principles and related criteria described above provide guidance on determining the boundaries of the government-wide 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.
50. An entity meeting the conclusive principle is consolidated in the government-wide reporting entity. With the exception of TBD JOINTLY FUNDED MUSEUMS, PERFORMING ARTS?
51. 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 determine if consolidation would provide the most meaningful presentation or if an alternative would best provide full disclosure.
52. 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.
53. Risks and Rewards approach in assessing for consolidation
54. 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.

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55. This Statement provides guidance on how entities meeting the indicative 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 applicable<sup>18</sup>, should be consolidated in the government-wide reporting entity.
  - b. An entity meeting
  - c. An entity meeting
  - d. An entity meeting
56. Indicative 1--Is there some way to group established entities by degree of relationship?
57. Indicative 2—Majority ownership
58. Indicative 3--Control
59. 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 rights; 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 government-wide reporting entity resulting from the relationship.

## Exceptions and Unique Relationships

### Exception--Temporary Conditions of Indicative Principles

60. Temporary conditions are not expected to be permanent. Although there is no specific time limit, the federal government's intention is not to make the conditions permanent.

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<sup>18</sup> In some situations, the principle of majority ownership may not apply for particular entities.

## Proposed Standards

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61. 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.
62. 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.
63. 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.
64. Temporary situations that exist at fiscal year-end<sup>19</sup> 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.
65. Entities where the conditions are deemed temporary should not be consolidated in the government-wide reporting entity. Disclosures for temporary situations should include the following for each significant<sup>20</sup> 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 rights;
  - c. Primary reasons for the temporary situation or intervention and intended timeframes;

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<sup>19</sup> 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.

<sup>20</sup> 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.

## Proposed Standards

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- d. Brief description of the exit strategy<sup>21</sup> 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 government-wide reporting entity resulting from the temporary situation.

### Exception-- Receiverships

- 66. 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.<sup>22</sup>
- 67. 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.<sup>23</sup>
- 68. 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).

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<sup>21</sup> 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.

<sup>22</sup> For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

<sup>23</sup> The disclosures required are consistent with existing practices.

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Jointly Funded Museums and Performing Arts Organizations and Universities

69. Jointly Funded Museums and Performing Arts Organizations and Universities are dependent upon or supported by contributions or charity, although they may receive some funding from the federal government.
70. 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.
71. If the federal government provides 80% or more of the total funding, the entity should be consolidated in the government-wide reporting entity.
72. If the federal government provides less than 80% of the total funding, the entity should not be consolidated in the government-wide reporting entity. Instead the government-wide 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 government-wide reporting entity.
73. Joint Ventures?
74. Other Rships? GSEs? FFRDC?

**Principles Defining the Boundaries of Component Reporting Entities**Component Reporting Entity Indicative Principles and Criteria

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75.

76.

77.

78.

**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**

79. 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.