Federal Accounting Standards Advisory Board

April 4, 2008

Memorandum

To: Members of the Board

From: Melissa L. Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: Federal Entity [1] **– Tab F**

MEETING OBJECTIVES

The primary objective of the meeting is to provide the Board with an update on the Federal Entity project. Specifically, staff will provide details of the first Federal Entity Task Force Meeting. The first federal entity task force meeting was held on February 20, 2008. The first meeting was insightful with approximately 20 participants. The participants' backgrounds provided a broad perspective. A summary of the first meeting, including a detailed list of participants is included in the briefing materials.

The secondary objective of the meeting is to obtain approval of next steps for the Federal Entity project. Staff would like the Board's approval to distribute a survey to the federal financial management community. The purpose of the survey is to obtain feedback from the financial management community on examples of 'questionable' organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Additionally, staff plans to continue work with the task force on developing the criteria for the boundaries of the reporting entity.

BRIEFING MATERIAL

This briefing packet contains the following sections and appendices:

- **<u>Summary of 1st Federal Entity Task Force Meeting</u>** This section contains a summary of the first Federal Entity Task Force Meeting. The summary was distributed to task force members for review and their comments have been incorporated accordingly. The summary contains key points from the meeting and suggested next steps.

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

- **Staff Recommendation and Questions for the Board** This section contains staff's recommendation as well as several questions related to next steps on the project.
- **Appendix 1 – Project Background** This appendix contains a running summary of the project.
- **Appendix 2 – Excerpt from SFFAC 2, Entity and Display**

BACKGROUND

At the December 2007 meeting, the Board discussed an updated outline paper on the boundaries of the federal reporting entity. The paper highlighted that all organizations within the three branches of the federal government are part of the federal reporting entity. In addition, the federal reporting entity includes all organizations that:

- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

The outline paper included specific, detailed criteria for each of the broad areas identified as well as an expanded introduction that included a discussion of component reporting entities. The Board members provided general comments on the paper. The Board 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 formed the task force and it includes 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. It was agreed that staff (and the task force) would concentrate on the areas identified by Board members for consideration. The first federal entity task force meeting was held on February 20, 2008.

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If you have any questions or comments 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.

Attachments

Federal Entity Task Force Meeting # 1
February 20, 2008
Summary

Date: February 20, 2008   9 a.m. – 12:00 p.m.

Participants:

Mark Hadley, CBO
Regina Kearney, OMB
Ann Davis, Treasury
Lynda Downing, GAO
Abe Dymond, FASAB Counsel
Jehan Abdel-Gawad, GAO
Ned Maguire (IG), Office of the Dir. of National Intelligence OIG
Owen Barwell (Deputy CFO), Department of Energy
Terry Bowie (Deputy CFO), NASA
Joel Grover (Dep. IG for Fin. Management & IT), Treasury OIG
Mark Reger (CFO), Office of Personnel Management
Sandy Van Booven (Dir. of Finance), National Reconnaissance Office (CIA)
Adrienne E. Young, National Science Foundation (CFO Office)
Stewart Petchenick, Department of Defense (CFO Office)
Major Rich Brady, USMC DOD, Joint Staff
Gary Solamon, Bureau of Economic Analysis (Budget Office)
Denise Williams, Treasury, FMS
Mary Baldwin, Treasury, FMS
Tom Daxon, Former Oklahoma State Auditor
Dan Kovlak, KPMG
Melissa Loughan, FASAB

Task Force Objective

The Federal Entity Task Force will assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included in the reporting entity. The task force will concentrate on areas identified by Board members for consideration. Of particular importance will be relationships such as joint ventures, special-purpose entities, federally funded research and development centers, lease arrangements, and other financing arrangements (partnerships).

Summary of Key Points

A survey of the community to identify organizations would be helpful

FASAB staff requested task force members share general matters regarding their experience with issues relating to the reporting entity or determining the boundaries of the reporting entity. Staff explained specific examples of organizations would be helpful to test when applying the criteria established for reporting entity boundaries.

The task force members noted they had encountered issues related to defining the reporting entity and determining the boundaries of the reporting entity. The task force provided the following examples of specific organizations as well as types of organizations where it was questionable if the organization should be part of the reporting entity:

- Universal Service Fund of the FCC, the fund is administered by the Universal Service Administrative Company
- FSAFEDS[1] which is sponsored by OPM
- Pension Benefit Guarantee Corporation (PBGC) at Department of Labor
- Federal Funded Research Development Centers (FFRDCs) at National Science Foundation, NASA, Department of Defense, Department of Energy
- Loan Servicing entities at Department of Education
- Funds held in escrow by courts
- Hotels in National Parks
- National Academy of Sciences
- Government Sponsored Enterprises (GSEs) (such as Fannie Mae)
- Other Government backed programs and organizations (such as the Public Company Accounting Oversight Board (PCAOB))
- Public-private partnerships or joint ventures
- Congressionally chartered nonprofit organizations (such as Big Brothers and Big Sisters)
- Bailout entities
- Quasi official agencies (such as Legal Services Corporation)

The task force agreed there are most likely many other examples of 'questionable' organizations that have been considered by federal entities. The task force believes it would be helpful to survey the community to determine other organizations that have been assessed. For example, the task force believes it would be a good exercise to list most of the larger FFRDCs, their characteristics, and how they are currently handled. In addition, it would be good to review other unique type entities such as Government Sponsored Enterprises, Bail-out entities, etc. The survey could find out what criteria have been used to determine the current treatment of the unique organizations. The task force believed this could be a starting point for gathering a list of criteria. The task force recognizes every organization is different and judgment will always play a factor, but having many examples will allow the task force to be in a position to be more specific as to what criteria should be applied.

Next steps: Staff will seek Board comment and approval for preparing a brief survey at the next Board meeting.

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[1] The Federal Flexile Spending Account (FSAFEDS) program is sponsored by the U.S. Office of Personnel Management but administered by SHPS, Inc. The Flexible Spending Account, or FSA, is an employee benefit program that allows employees to set aside money, on a pre-tax basis, for certain health care and dependent care expenses.

Preference for a principles-based approach in the standard

The task force discussed whether the proposed standard should take a principles-based or rules-based approach. In the draft, one of the basic premises states that the proposed standard would provide guidance on determining the boundaries of an entity but not specify which organizations are in or out. Staff explained the Board had requested the task force to assess which would be the best approach.

The task force was in agreement that a principles based approach would be workable and allow for professional judgment. The task force believed that rules-based could be too restricting and may call for changes year to year. In addition, the task force noted that no two contracts are the same so there must be flexibility that a principles based approach would allow. For example, the task force described how different FFRDC arrangements can be and that an assessment would have to be made based on the individual agreements versus a decision that all FFRDCs should be in or out. The task force agreed that criteria are needed to assist but no specific rulings should be made on various relationships. The task force agreed the proposed standards should be written as guidelines for users to apply and should not explicitly state which types of organizations are included within the boundaries of the reporting entity. However, some suggested it may be useful to include specific examples as case studies as an appendix.

Next Steps: Staff will seek Board comment and approval of a principles-based approach at the next Board meeting.

Proposed standard should address consolidation and other disclosures

The task force discussed the goal of the federal entity project would result in a standard on consolidation. The task force discussed the criteria for including organizations in the reporting entity resides solely in a concepts statement. Therefore, a primary goal is to have a standard that addresses consolidation. The task force discussed that when assessing organizations it may result in the fact that the organization shouldn't be consolidated, but some disclosure of the organization may be appropriate. The task force agreed that there will be instances where consolidation may not be warranted but some disclosure may be necessary. The task force agreed that the proposed standard should cover both. The task force agreed the proposed standard should be all inclusive and cover situations that result in consolidation and those that result in some other disclosures.

Next Steps: Staff will confirm Board approval of this approach (including both consolidation and other required disclosures) at the next Board meeting.

General principles stand alone

The task force discussed the outline paper provides the following:

> The federal reporting entity encompasses all the organizations existing within the federal government, which is the executive, legislative and judicial branches. In addition to the organizations within the three branches of the federal government, the federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government that
>
> - the federal government is directly financially accountable for or owns;
> - the federal government exercises control over; or
> - the nature and significance of their relationships with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

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.

All branches of the federal government should report

The task force discussed the first general principle in the outline paper for the proposed standard. It states "The federal reporting entity encompasses all the organizations existing within the federal government, which is the executive, legislative and judicial branches." Staff explained the principle is considered first when determining if an organization is within the boundary of the federal reporting entity. Meaning, if an organization is part of the three branches, no further assessment is required. Organizations outside the three branches or whose legal status is outside of the federal government are the ones that would be assessed against the other broad principles and related criteria to determine if the organization should be included in the federal entity.

The task force discussed judicial branch organizations are not required to prepare audited financial statements and are not compelled to do so, and that it is difficult for FASAB to address this issue because FASAB does not have the authority to require entities to report.

The task force noted the CFR is a "government-wide report," as opposed to the "executive branch report." However, the CFR does not reflect the entire government. The CFR explains that the legislative and judicial branches do not provide accrual-based information to Treasury for the CFR (see pg. 157 of FY2007 CFR), but notes that some congressional agencies voluntarily prepare and submit such information. The CFR also lists certain other entities that are not included but does not adequately explain why these are not included. Is there a perception that these should be included? The task force questioned if there were other entities that should be included.

The task force discussed noted difficulties for Treasury to obtain the necessary information from the judicial branch. The task force recognized this affects the completeness for the federal entity as a whole. Some asked whether a study is needed to determine what is in the judicial and legislative branches and whether they are material to the CFR. The task force noted that there are benefits to having all branches prepare financial statements –assessing internal controls and demonstrating accountability. However, it has been noted that the dollars for the judicial branch are nominal when considered in relation to the federal entity as a whole. The task force noted that some judicial branch assets are on the books. For instance, the GSA captures the buildings. In addition, some legislative branch agencies do prepare financial statements, such as the Architect of the Capitol, the Government Accountability Office, and the Government Printing Office.

The task force agreed if the judicial branch is not required to report, then the standard would in essence be set up for failure. Some members of the task force suggested that FASAB or other parties seek legislation that would require all branches to prepare financial statements. The task force was in agreement that congressional action may be needed to ensure all branches report.

It was noted under the AICPA GAAP hierarchy, if any federal entity (including legislative or judicial branch) prepares financial statements they would need to use FASAB standards. This requirement, in essence, dictates what kind of opinion the entity gets. If a federal entity wishes to obtain an audit opinion that indicates the financial statements are presented in conformity with GAAP, the federal entity must follow FASAB standards.

Task force participants agreed all branches, including the judicial branch, should be included in the CFR, but legislation may be needed to make that happen. The task force suggested that Congress would want there to be accountability in all of the federal government. Further, there should be interest in preparing financial statements for all branches of the federal government. The task force discussed the benefits to preparing financial statements according to standards. It helps validate internal information which is useful for decision-making. The task force discussed the need for agencies not reporting to realize the benefits because credibility should be an incentive for all agencies.

The task force discussed the possibility of having the legislative and judicial branches phased in or some caveat in the proposed standard that would acknowledge this fact until legislation is passed. The task force suggested the proposed standard be written to account for the evolutionary nature of the issue, rather than coming out and saying these entities are not included. The task force discussed the fact that by not including the other branches of government, the CFR may be missing some assets and liabilities. The task force discussed an alternative approach would be for the proposed standard to be just for the executive branch since only this branch is required to report. However, the task force did not support this approach and agreed the federal reporting entity should include all branches. The task force agreed the best resolution may be to seek the appropriate congressional action to require all branches to report.

Next Steps: Staff requested FASAB (GAO) counsel to review the legislative history surrounding this issue. Also, staff requested clarification if the issue of separation of powers has bearing. Counsel conveyed that addressing financial statements for judicial and legislative branch entities need not raise concerns regarding separation of powers as it depends on how it is approached legislatively.

After reviewing the legislative histories of the Chief Financial Officers Act, Government Management Reform Act, and the Accountability for Tax Dollars Act, counsel explained nothing in the histories reflects any open deliberation on the exclusion of other branches of

the government. Considering some laws direct certain legislative branch agencies to prepare audited financial statements, Congress has deliberated the need for certain agencies to do so.

Counsel advised that seeking legislation may either take a long time or not be successful and that the additional information about the legislative and judicial branch financial information discussed above should be investigated first.

Therefore, it is suggested that next steps include review of what information currently is provided by the legislative and judicial branches (and what is excluded) and whether that is material to the CFR. Staff hopes to accomplish this by reviewing Treasury and GAO documentation of prior work in this area. Also, next steps should include exploring whether any components of the legislative or judicial branches are preparing to voluntarily provide accrual-based information to Treasury or to issue audited financial statements.

Ownership is separate from control

The task force discussed the second general principle in the outline paper for the proposed standard. It states "The reporting entity should comprise the organizations that it is directly financially accountable for or owns." Staff explained that some standard setters view ownership and financially accountable as a form or indication of control. Additionally, there has been some concern that ownership may not be applicable in the federal government environment. However, the federal government has owned stock, for example in Amtrak and Chrysler.

The task force discussed whether ownership is applicable in the federal environment and if financially accountable and ownership should be assessed separate from control. The task force members agreed that ownership and directly financial accountable should stand alone and be considered separate from the general control principle. The task force suggested there needs to be more discussion on both ownership and financially accountable. For example, the task force believes the notion of directly financially accountable should be further explained and described. Also, the task force believed the notion of ownership requires certain parameters. The task force noted that an entity can be partially owned or wholly owned and this needs to be differentiated and described.

Next Steps: Staff will convey the task force's position at the next Board meeting. Staff will seek Board comment and approval. Staff would like to request a few volunteers from the task force to work closely with staff on this particular issue. The smaller work group will work with staff to draft language for the next task force meeting.

Control is key factor in assessing boundaries

The task force discussed the third general principle in the outline paper for the proposed standard. It states "The reporting entity should comprise the organizations it exercises control over." The task force also discussed the paper defines control as follows: the power to govern the financial and operating policies of another organization with expected benefits (or the risk of loss) to the reporting entity from the other organization's activities.

Staff explained the discussion of control is one of the key areas of the proposed standard and one of the most difficult to apply as it involves much professional judgment. The proposed standard includes certain indicators of control that should be considered in determining whether the federal government controls an organization. These indicators provide strong evidence of control, however; the absence of one of the specific indicators does not lead to a presumption that control is not present. Much of the focus of the reporting entity standard is on control and determining whether it exists. It is also important to distinguish what doesn't constitute control. The proposal states that control would not be inferred from: regulatory powers; constitutional responsibility; or purchase power.

The task force members agreed that control was the key factor in determining whether an organization is within the boundaries of a federal entity. Certain task force members believed the federal government is a political entity and that is what makes it very different as other standard setters deal with economic entities. The main factor that should be considered is the delegation of authority and power which is related to the concept of control.

The task force member noted control is an important factor as there are many ancillary and auxiliary organizations that are tied to the federal entity but not legally the federal government's responsibility. The task force believes these types of entities pose the most difficulty in assessing whether they are part of the federal entity.

The task force believed the definition of control in the outline paper to be problematic as it is too broad and could include many contracts. After much discussion, the task force determined the definition should be much simpler and relate to governing board. The task force believed the following should be used for the definition of control:

> Control is the ability or authority to appoint a majority of the governing board.

The task force believed this definition of control gets to the core of what control really is which includes the ability to exercise management, ability to appoint the board or exercise fiduciary responsibility.

There was then some discussion regarding the "expected benefits (or risk of loss)" part of the definition. There was not a conclusion if the final definition of control should have the "expected benefits/loss" clause. The task force agreed that more time should be devoted to finalizing the definition and discussing the criteria that should be included to indicate control. Initially, the task force didn't have major concerns with the criteria included in the outline paper. However, the task force believed they should be evaluated further once the definition is finalized.

Next Steps: Staff will convey the task force's position at the next Board meeting. Staff will seek Board comment and approval. Staff would like to request a few volunteers from the task force to work closely with staff on this particular issue. The smaller work group will work towards finalizing a definition of control. Staff would like the group to further consider the "expected benefit/loss" in the definition. Including this in the definition would ensure it is complete and relevant to financial reporting and decision making. The group would also discuss the criteria further and finalize a proposal for discussion at a future task force meeting.

Exceptions and other organizations to be considered at future federal entity task force meetings

The task force was in agreement that there are most likely exceptions that should be considered. In addition, the task force agreed that there could be instances where organizations may not meet the broad characteristics, yet the nature and significance of the relationship is such that excluding them would make the GPFFR misleading or incomplete. However, there was no time to discuss these areas in great detail. The task force agreed this should be discussed at future meetings and in greater detail once the other principles are finalized.

Next steps: Staff plans to discuss exceptions and other issues in more detail with the task force at future meetings.

Separate meeting with intelligence representatives to occur

The task force includes representations from the intelligence community because of the unique nature. It was agreed that a separate, classified meeting to go over intelligence community examples, especially those that may be considered exceptions should be scheduled. The intelligence community will participate in all task force activities but will not offer specific examples until the classified meeting. The meeting will occur after the task force further develops some the proposed standard.

Next steps: Staff plans to coordinate the meeting once the proposed standard is further developed.

Staff Recommendation and Questions for the Board

Consistent with the "Next Steps" noted in the summary of the task force meeting, staff recommends the following:

- Survey the federal financial management community to determine other organizations that have been assessed when determining the boundaries of the entity. In addition, a targeted call for specific organizations (such as FFRDCs) for information on characteristics, current treatment and criteria used in the assessment.

- Review what information currently is provided by the legislative and judicial branches (and what is excluded) and assess whether that is material to the CFS. Staff hopes to accomplish this by reviewing Treasury and GAO documentation of prior work in this area.

- Continue task force meetings and move forward with developing more specific language on ownership and financially accountable, developing the definition for control, specific criteria and other areas noted in the summary of the task force meeting.

Primary Question for the Board

Do you agree with the staff recommendation above which includes distributing a survey to the financial management community, assessing information provided by the legislative and judicial branches, and continuing task force meetings and work in the areas noted in the summary memo?

Other Questions for the Board

1. Does the Board have any questions regarding the first federal entity task force meeting?

2. Does the Board agree with the task force main points detailed in the summary memo? If not, please discuss the specific areas that the task force should reconsider.

3. Are there other specific areas or issues that you would like the task force to consider as it moves forward with the federal entity project?

Project Background

September 2007

Staff presented an issue paper at the September meeting that discussed general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff recommended the Federal Reporting Entity include entities, organizations, transactions, and activities for which:

- the federal government is financially accountable;
- the federal government exercises control over; and
- the nature and significance of their relationship with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

Staff also presented an outline of a proposed standard to assist with understanding how the general principles would be conveyed in a proposed standard. The general principles are consistent with the framework established in SFFAC 2 but will allow for an expansion of the detailed criteria that may go beyond what is in SFFAC 2 and resolve some of the outstanding issues.

The Board agreed with the general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff will move forward on developing detailed criteria for each.

July 2007

The Federal Entity project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement and it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Staff prepared outline papers for each —a Proposed Concepts Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation which were included in the July briefing materials.

Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, there was mixed feedback from Board members regarding the approach moving forward on the project. Specifically, some members were in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area. Therefore, the July Board meeting was used to get the consensus of the Board on the direction for moving forward on the project. Staff presented three options to the Board and explained the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

Based on input from the Board, staff summarized that the best approach for moving forward on the Entity Project would be option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC 2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards.

March 2007

The March 2007 briefing paper discussed the issue area—Definition of entity / reporting entity. In assessing how entity / reporting entity should be defined for federal financial reporting purposes, staff considered the following questions:

- Does FASAB already define entity / reporting entity?
- Should there be a distinction between Entity and Reporting Entity?
- Is there a relationship between the reporting entity concept and the objectives of federal financial reporting? If so, should this be articulated?
- How do U.S. standard-setters and National and International standard-setters define Entity /Reporting Entity?
- Would a definition be best articulated in Concepts or Standards?

The issue paper is a first in a series of papers to consider several different aspects of the federal entity concept. Staff plans to devote the next several Board meetings to issue papers that will address the following:

- Characteristics of a Reporting Entity
- Boundaries of a Reporting Entity
- Kinds of "things" that could be included in an entity—the types of transactions, events and entities that may be encompassed within a reporting entity, e.g., other entities, activities, guarantees, functions, etc.
- Overall scope of the Federal Government Reporting Entity

The intent of assessing the definition of entity / reporting entity at the beginning of the project was to finalize terms and definitions to avoid future misunderstandings and misconceptions. Current FASAB standards and concepts utilize several different terms—such as entity, reporting entity, federal reporting entity, component entity, component reporting entity, Federal Government entity when referring to entity.

Currently, there has been a diverse approach to defining the term entity and reporting entity among other standard setters. For example, FASB and IASB do not define the terms, whereas GASB defines different levels for entity depending on the context, such as reporting unit, governmental unit, reporting entity and Financial Reporting entity.

Staff did not believe it was feasible to make a recommendation regarding a proposed definition for entity and reporting entity at this point because staff believed it would be helpful to assess the scope of the federal government as well as the characteristics of entities. Staff believes there is the potential of overlap between the definition of entity and the characteristics of an entity.

January 2007

Staff presented the Federal Entity Project Plan to the Board. Staff explained the project is part of the overall Conceptual Framework Project and is expected to last approximately three years. The project plan identifies issue areas that will be addressed in the project as well as milestone dates and included several appendices that contain pertinent excerpts from existing concepts, standards, and other reports that relate to the entity and consolidation issue from U.S., national and international standard setters that will be analyzed in greater detail throughout the project.

Staff obtained the Board's feedback on the scope of the project, overall approach of the project, and issue areas identified. Overall, the Board members agreed with the Federal Entity Project Plan. Board members agreed that there are a number of entity issues, including a lot of unique government relationships that will need to be considered. Board members suggested that staff consider the following:

- reporting financial activities for which an entity may be responsible
- "unit of analysis" issue as it relates to the kinds of "things" that would be included in an entity-other entities, activities, guarantees, functions, etc

- often by law or regulation, a certain activity is required to publish a financial statement
- federally funded research development centers
- public-private partnerships in other countries
- situations where the government is contracting out things that used to be a government function
- Boards, councils, etc. that are not considered part of the federal government because they are not in the Budget, yet the President appoints the members
- consider what type of “related party disclosures” should be to disclose information about unique relationships (not be part of the federal entity)
- implication of the language in the Accountability for Tax Dollars Act

Staff will move forward on the Federal Entity Project. Staff plans to focus on the “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity-other entities, activities, guarantees, functions, etc. Staff will also begin research on Issue 1: Definition of Entity / Reporting Entity.

SFFAC No. 2: Entity and Display—Excerpt, paragraphs 1 through 53

Introduction

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

2. The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, and suggests the types of information each type of report would convey.

3. A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate and recommend accounting standards for the Federal Government. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements;2 and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles for Federal agencies to be followed for the preparation of financial statements.

4. This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.

5. The specification of reporting entities intends to be suitable for all organizations within the Executive branch of the Federal Government, including the Departments, independent agencies,3 commissions, and corporations. FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. However, the concepts recommended in this statement would be appropriate for those branches.

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

- **Budgetary integrity**. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their

[2] OMB specifies the form and content of agency and governmentwide financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (title 31, U. S. Code, section 3515(d) and section 331(e)(1)) through periodic issuance of OMB Bulletins. OMB intends to base the form and content on the concepts contained in this statement.

[3] "Independent agencies" is a term used to distinguish agencies that are independent of a Cabinet department from the agencies that are part of the Cabinet departments. Independent agencies report directly to the President and are part of the U. S. Government.

expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.

- **Operating performance**. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.

- **Stewardship**. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

- **Systems and control**. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure proper execution of transactions, safeguard assets, and support performance measurement.

7. The concepts are also intended, as FASAB's mission statement requires, to help in meeting the financial and budgetary information needs of executive agencies and Congressional oversight groups, and to strengthen the conceptual basis and consistency of Federal accounting data.

8. The entity and display concepts presented in this statement do not preclude the specification of ad hoc or temporary reporting entities to meet special reporting needs of users of Federal agencies' financial information. Nor do they preclude a reporting entity from preparing special purpose financial reports to meet the specific needs of persons in the reporting entity or in response to requests from persons outside the entity for certain financial information; or from preparing a so-called "popular report," which provides a simplified, highly readable, easily understandable description of a reporting entity's finances. These statements would not necessarily purport to be presented in accordance with generally accepted accounting principles.

Reasons for Defining Reporting Entities

9. The most basic reason for having an explicit understanding of what the reporting entity entails is to ensure that the users of the entity’s financial reports are provided with all the information that is relevant to the reporting entity, subject to cost and time constraints. Clearly defining the boundaries of the reporting entity provides the users with a clear understanding of what the reporting entity encompasses. It helps to establish what information is relevant to the financial statements and what information is not.

10. Other reasons for having an explicit understanding of what the reporting entity entails are to:

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

Structure of the Federal Government

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

Organization Perspective

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

Budget Perspective

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

14. Budget accounts are not the same as Treasury accounts. The latter are accounts established in the Treasury to, among other purposes, record the appropriations and other budgetary resources provided by statutes and the transactions affecting those accounts. For the most part, budget accounts are aggregations of Treasury accounts. Also, Treasury accounts include deposit accounts as well as budget accounts.

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

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

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

18. Care must be taken in determining the nature of all trust funds and their relationship to the entity responsible for them. A few trust funds are truly fiduciary in nature. Most trust funds included

in the budget are not of a fiduciary nature and are used in federal financing in a way that differs from the common understanding of trust funds outside the federal government. In many ways, these trust funds can be similar to revolving or special funds in that their spending is financed by earmarked collections.

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

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

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

Program Perspective

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

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

24. The term "program" is also often used interchangeably with the terms "function" and "sub-function" (see paragraph 21). Generally, however, the term "function" would be used only for the functions defined in the budget. Otherwise, the term "program" would be used.

Intertwining of the Perspectives

25. The programs are administered by the organizations and financed by the budget accounts. In a few instances, there is a one-to-one relationship among the three perspectives. A single budget account finances a single program and organization. Thus, the program is carried out only by the single organization and the organization performs only one program.

26. However, most programs are financed by more than one budget account, some of which might not be under the control of the organizational unit administering the program. Some programs are even administered by more than one organization. Likewise, a single organization or budget account could be responsible for several programs. In some instances, a program could also be considered an organizational unit, e.g., the Center for Disease Control and Prevention.

27. Furthermore, some of the support necessary to perform a program is frequently provided by other organizations and/or financed by other budget accounts. Examples are the computer support for a program that is obtained from a central unit within the department, or retirement health costs for a program's current and former employees.

28. This complex situation is the result of the evolution of Federal organizations, programs, and budgetary structures over many years. As Federal missions and programs have expanded and changed, new departments have been created, new organizations have been added to existing departments, and new duties have been assigned to existing organizations on the basis of various considerations. Similarly, the budget structure has evolved in response to the needs of the Congress; its committees and subcommittees; and various initiatives by the President, program managers, and interest groups.

Identifying the Reporting 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.[4]

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

[4] 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.

pertain only to the Executive Branch). The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government (see paragraphs 39 through 50) are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

Criteria for Including Components in a Reporting Entity

39. Regardless of whether a reporting entity is the U.S. Federal Government, or an organization, suborganization, or program, there can be uncertainty as to what should be included and inconsistency as to what is included in the reporting entity. The identification and application of specified criteria can reduce this uncertainty and inconsistency.

40. The Governmental Accounting Standards Board (GASB) has established criteria for what would be included in a state or local government reporting entity. These criteria relate to financial accountability, which includes appointment of a voting majority of the organization's governing board, together with imposition of will, and financial benefit to or burden on a primary government. These criteria, while in part relevant, must be tailored to the Federal Government environment. First, there are not as many different types of entities in the Federal Government as there are in state and local governments. Second, the Congress and others with oversight authority frequently establish explicit rules for what to include as part of a Federal reporting entity. Finally, as indicated, with the exception of the Federal Government as a whole, all the reporting units are components of a larger entity, namely the Federal Government, rather than independent economic entities.

Conclusive Criterion

41. There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a **conclusive criterion**, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.

42. Appearance in the Federal budget section currently entitled "Federal Programs by Agency and Account" is a conclusive criterion. Any organization, program, or budget account, including off-budget accounts and government corporations, included in that section should be considered part of the U.S. Federal Government, as well as part of the organization with which it appears. This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.

Indicative Criterion

43. There are instances when, for political or other reasons, an organization (including a government corporation), program, or account is not listed in the "Federal Programs by Agency and Account," yet the general purpose financial statements would be misleading or incomplete—in regard to the objectives for Federal financial reporting—if the organization, program, or account were not included therein. These organizations, programs, or accounts would normally be considered to be operating at the "margin" of what would be considered a governmental function in contrast to providing a more basic governmental function. Thus, in addition to the conclusive criterion, there are several **indicative criteria** that should be considered in the aggregate for defining a financial reporting entity in the Federal Government. No single indicative criterion is a conclusive criterion in the manner that appearance in the "Federal Programs by Agency and Account" section of the budget is. Nor can weights be assigned to the indicative criteria. Thus,

while the indicative criteria are presented in descending order of importance, judgment must be based on a consideration of all of the indicative criteria.

44. The indicative criteria for determining whether an organization not listed in the "Federal Programs by Agency and Account" section of the budget is nevertheless part of a financial reporting entity are as follows:

- It exercises any sovereign power of the government to carry out Federal functions. Evidence of sovereign powers are the power to collect compulsory payments, e.g., taxes, fines, or other compulsory assessments; use police powers; conduct negotiations involving the interests of the United States with other nations; or borrow funds for Government use.
- It is owned by the Federal Government, particularly if the ownership is of the organization and not just the property. Ownership is also established by considering who is at risk if the organization fails, or identifying for whom the organization's employees work.
- It is subject to the direct or continuing administrative control of the reporting entity, as revealed by such features as (1) the ability to select or remove the governing authority or the ability to designate management, particularly if there is to be a significant continuing relationship with the governing authority or management with respect to carrying out important public functions (in contrast to selections and designations in which there is little continuing communication with, or accountability to, the appointing official); (2) authority to review and modify or approve budget requests, budgetary adjustments, or amendments or rate or fee changes; (3) ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations; (4) authority to sign contracts as the contracting authority; (5) approval of hiring, reassignment, and removal of key personnel; (6) title to, ability to transfer title to, and/or exercise control over facilities and property; and (7) right to require audits that do more than just support the granting of contracts. (While many of these criteria exist in a client contractor relationship, it is not necessarily intended that an entity's contractor be considered as part of the reporting entity.)
- It carries out Federal missions and objectives.
- It determines the outcome or disposition of matters affecting the recipients of services that the Federal Government provides.
- It has a fiduciary relationship with a reporting entity, as indicated by such factors as the ability of a reporting entity to commit the other entity financially or control the collection and disbursement of funds; and other manifestations of financial interdependency, such as a reporting entity's responsibility for financing deficits, entitlement to surpluses (although not necessarily the assets acquired from failed units), or the guarantee of or "moral responsibility" for debt or other obligations.

45. The entity or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics is more than fleeting.

46. In applying the indicative criteria, the materiality of the entities and their relationship with one another should be considered. Materiality should not be measured solely in dollars. Potential embarrassment to any of the entities' stakeholders should also be considered. Thus, a bias toward expansiveness and comprehensiveness would be justified, particularly if it could contribute to maintenance of fiscal control.[5]

[5] Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.

Federal Reserve System

47. In establishing and monitoring monetary policy, the Federal Reserve System, i.e., the Board of Governors of the Federal Reserve System and the Federal Reserve Banks, could be considered as functioning consistent with the indicative criteria presented in paragraph 44. However, in the United States, the organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity. Payments made to or collections received from the Federal Reserve System would be reported in the financial statements of the Federal Government. Certain other disclosures might also be appropriate in the financial statement for the entire government.

Government Sponsored Enterprises

48. There are also several Federally chartered but privately owned and operated financial institutions that have been established as financial intermediaries to facilitate the flow of investment funds to specific segments of the private sector. These entities are called government sponsored enterprises (GSE). Examples are the Federal National Mortgage Association, the Farm Credit Banks, and the Federal Home Loan Banks. By law, each of these GSEs is subject to oversight from a specific Federal agency. However, they are not included in the Federal budget section entitled "Federal Programs by Agency and Account." Nor, as currently constituted, do they function in a manner consistent with the indicative criteria presented in paragraph 44. Thus they would not be considered part of the government-wide reporting entity nor the reporting entity to which they have been assigned for oversight.

49. On the other hand, there are "political expectations" associated with the GSEs, the most significant of which is an expectation that legislation would be enacted to support a GSE experiencing severe financial difficulties. (Political expectations are different than "moral obligations" established by many states. There is no statutory authority that defines whether and how a political expectation would be met. With a moral obligation, the manner in which it may be met is usually explicitly defined in statute.) Therefore, agencies assigned oversight responsibility for a GSE(s) would need to consider making disclosures of the government's relationship with the GSE(s) and other information that would provide an understanding of the possibility of a contingent liability.[6]

Bailout Entities

50. The Federal Government occasionally bails out, i.e., guarantees or pays debt, for a privately owned entity whose failure could have an adverse impact on the nation's economy, commerce, national security, etc. As a condition of the bail out, the Federal Government frequently obtains rights similar to the authorities associated with the indicative criteria presented in

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

paragraph 44. The existence of these rights does not make the bailed out entity part of the Federal Government reporting entity or any of the other reporting entities that are part of the Federal Government. Disclosure of the relationship(s) with the bailed out entity(ies) and any actual or potential material costs or liabilities would be appropriate.

OTHER ASPECTS CONCERNING THE COMPLETENESS OF THE ENTITY

51. The application of specified criteria to delineate the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within the parameters explained in paragraphs 52 and 53, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

52. A process in which the reporting entity is billed and pays for the amounts attributable to its activities is normally the most desirable approach for recording and reporting these amounts. However, when this type of direct debiting or crediting is not done, the decision as to whether to capture and report attributable amounts would be based on such criteria as the magnitude of the attributable amounts, the decision usefulness of the information to its likely users, the costs of capturing the data, whether a decision would be made differently as a result of having the information, and whether the information would have a policy impact.

53. It might be appropriate to consider the interest expense inherent in devoting a sum of capital to an organization or program as part of the total costs incurred in operating the organization or performing the program. This principle has already been adopted for the accounting for loans and loan guarantees, whereby a loan program is charged for the cost of capital provided