



**December 2, 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 L**<sup>1</sup>

### **MEETING OBJECTIVES**

The primary objective for the December Board meeting is to determine if the Board approves the revised approach to federal entity standard. The revised approach, which is discussed in detail in the staff memo starting on the next page, uses a one-step consolidation principle versus first establishing boundaries, then determining presentation. The revised approach also eliminated the use of the terms 'conclusive' and 'indicative' principles considering they both lead to consolidation. Staff will also seek Board member concurrence with the federal entity task force's recommendations regarding the approach to be taken on related party.

### **BRIEFING MATERIAL**

This transmittal memorandum includes a Staff Issue Paper presenting issues and recommendations. Questions for the Board are specifically on pages 3, 5, 6, and 7. The following items are included in the briefing materials:

- ***Staff Issue Paper (beginning at page 3 of this memo)***
- ***Attachment 1-- Narrow RP Approach for Government-wide Reporting***
- ***Attachment 2-- Broad RP Approach for Government-wide Reporting***
- ***Attachment 3--Related Party Issue Paper***
- ***Attachment 4--Summary of November 17, 2010 Federal Entity TF Meeting***
- ***Attachment 5--Treasury Slide Presentation from Federal Entity TF Meeting***

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

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## **BACKGROUND**

The federal entity project was not on the agenda at the last meeting. Instead, staff worked on the revised approach and met with the federal entity task force. Staff believes the revised approach, which is a more concise proposal that focuses on what entities should be consolidated versus what is within the boundaries, will address Board member concerns raised during previous meetings. For example, staff believes the revised approach will address member concerns regarding the distinction between conclusive and indicative principles as these terms were eliminated. Also, the “established by the federal government” principle was dropped. Instead, if not consolidated, entities established by the federal government could be considered related parties. Additional information is included in the staff memo. If approved, staff will continue working on a complete exposure draft.

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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](mailto:loughanm@fasab.gov).

## STAFF ISSUE PAPER

### CHANGE IN APPROACH

Based on Board member feedback, staff revisited the approach and no longer is taking a two step approach—as you may recall originally the plan was to 1. Define the boundaries of the government-wide reporting entity and 2. Determine the presentation of the entities within the boundaries. It appeared this approach led to additional steps and unnecessary language within the proposed standard. Staff believes the revised approach, which is a more concise proposal that focuses on what entities should be consolidated versus what is within the boundaries, will address Board member concerns that were raised during previous meetings.

Consolidation principles were the focus, therefore the terms ‘conclusive’ and ‘indicative’ principles were dropped from the standard considering they both lead to consolidation. This had been a concern noted by at least one or two members. This should also make it an easier transition for the component entity standard.

Most members shared the concern with the indicative principle ‘established by the federal government’ either standing on its own or existing as a principle. Therefore it is no longer a consolidation principle and instead, if not consolidated, entities established by the federal government could be considered related parties.

The Federal Entity Task Force agreed the revised approach is a preferred and much more straight-forward approach.

<p><b>QUESTION: Does the Board agree with the revised approach?</b></p>
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### RELATED PARTY PAPER & TWO DIFFERENT APPROACHES

Included in the briefing package at **Attachment 3**, the Related Party Issue paper provides two approaches for FASAB in addressing related parties in the exposure draft (ED) -- 1. Related Party- narrow Related Party reporting (most of the entities would be consolidated or considered an exception (though still a federal entity) to consolidation with alternate reporting disclosures) and 2. Related Party –broad Related Party reporting (most of the entities would be consolidated, but if not consolidated the entities might be considered a Related Party but not a federal entity.)

One of the main differences between the two versions is that in the Narrow version—the Exceptions from consolidation are just that—*exception from consolidation*—they are still considered federal entities, but not consolidated; whereas in the Broad version, the related party focus is broader and more entities may fall within the related party area versus being considered a federal entity. There is also a difference in the definition of Related Party for the two versions. The Broad version takes a broader view of related parties and includes more things in the related party, whereas the narrow version relies

on the entity definition (and exceptions) to address control of an entity. Therefore, the related party definition in the narrow approach focus is solely on significant influence over an entity.

As a result, the main difference in the two approaches is the scope of related parties. The narrow Related Party version would identify parties the federal government significantly influences as related parties. Most entities having other relationships would be either consolidated or considered an exception (though still a federal entity) to consolidation but with alternate reporting (note disclosures-summary financial statements) required. In the broad Related Party version, the federal entities that were considered an exception in the narrow version might instead be reported as a related party. It is important to note that from the audit perspective, specific audit procedures are prescribed for related parties in AU Section 334 *Related Parties*.

**NARROW RELATED PARTY APPROACH**

Government-wide Reporting Entity					Related Party Disclosures
CONSOLIDATED ENTITIES	Exceptions				
	INTERVENTIONS  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.	CONSERVATOR/ RECEIVORSHIP  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	QUASI-GOVT FINANCIAL INDEPEND.  Governance differences lead to greater independence Financial differences lead to greater fiscal autonomy	JOINTLY FUNDED MUSEUMS & OTHERS  dependent upon or supported by contributions or charity, although they may receive some funding from the federal government	

**BROAD RELATED PARTY APPROACH**

Government-wide Reporting Entity		Related Party Disclosures
CONSOLIDATED ENTITIES	Temporary Exceptions  Intention is not to make it permanent.	

The Federal Entity Task Force preferred the Narrow Related Party Approach.

**QUESTIONS: Does the Board agree with the task force on the Narrow related party approach?**

**Does the Board have any other comments on the approach for or the staff paper on related party?**

## **ALTERNATE PRESENTATION FOR EXCEPTIONS**

Staff notes there were several options that could have been considered for the alternate presentation. Staff believes the proposal should provide some flexibility as consolidation may not always be the best answer. SFFAC 1 par. 49 states "...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government." SFFAC 1 par. 105 further explains "reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives..." SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.<sup>2</sup>

One approach is to consider the goal is to ensure the basic financial statements measure and communicate the risks and rewards assumed by the citizens.<sup>3</sup> Citizens have an interest in the risks and rewards assumed, but it is less clear that full consolidation provides the most relevant, understandable, or consistent measure. General purpose financial reports should be presented to be understood by those who may not have a detailed knowledge of accounting principles and should include explanations and interpretations to help report users understand the information in the proper context.<sup>4</sup>

Par. 161 of SFFAC 1 discusses relevance as "...To be relevant, a logical relationship must exist between the information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event. Relevance depends on the types of financial information needed by the various users to make decisions and to assess accountability." SFFAC 1

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<sup>2</sup> SFFAC 1, par. 156

<sup>3</sup> SFFAC 1, par. 99-102 describes the users need information to assess the effect of the government's activities on its financial condition and that of the nation, which includes information on the federal government's exposures and risks.

<sup>4</sup> SFFAC 1, par. 158

also provides that the concept of consistency in financial reporting extends to the determination of the financial reporting entity.<sup>5</sup>

As described, full consolidation may not be the best alternative for meeting the basic qualitative characteristics of information in financial reports and it is less clear that full consolidation provides the most relevant, understandable, or consistent measure. Full consolidation may result in the following consequences:

- Consolidation may obscure the boundaries of the risks and rewards intended to be assumed.
- Assets that are not available for purposes other than the specific business operation are commingled or added to federal assets.
- Liabilities not fully guaranteed by the federal government are added to the federal government liabilities.
- Gross costs of the organization are added to federal governmental costs.
- Gross revenues of the organization are added to the federal government revenues.

Staff considered several options outside of full consolidation but believed providing the preparer the option of presenting Summary Financial Statements or Information that would provide an understanding of the potential financial reporting impact, including financial-related exposures to potential gain and loss to the government-wide reporting entity to be the best alternative. Presenting Summary financial statements in the notes would present summary financial statements for entities as if they are separate entities. Any transactions or balances with the entities displayed on the various sets of financial statements are not eliminated. This presentation allows readers to assess risks/rewards; performance and stewardship readily for non-consolidated entities as well as other information can be analyzed readily. Alternatively, it provides flexibility so the preparer may present the information they believe most pertinent.

**QUESTION: Does the Board agree with the flexibility provided and proposed disclosures for the exceptions?**

## **GENERAL FUND**

As detailed in the Summary of the Federal Entity Task Force Meeting, Treasury provided a briefing on the General Fund Issue.

The Federal Entity Task Force agreed to form a sub-group to work with Treasury on the general fund issue. The task force will determine if anything specifically regarding the general fund would need to be addressed in the proposed standard when developing

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<sup>5</sup> SFFAC 1, par. 163

the component reporting section, but will at a minimum consider what constitutes a standalone entity.

**QUESTION: Does the Board agree with plan to address the General Fund issue?**

## **MISLEADING TO EXCLUDE PRINCIPLE**

The Misleading to Exclude principle helps to ensure the proposed Standard could accommodate rare or unique situations that may arise in the future. Staff believes there should be some flexibility in the disclosure.

The Federal Entity Task Force agreed the Misleading to Exclude Principle should be maintained.

**QUESTION: Does the Board agree the Misleading to Exclude Principle should be maintained?**

## **ILLUSTRATION GUIDE**

Staff plans to develop an Illustration Guide, with examples of entities (similar to the Appendix in GASB 14) that would accompany the exposure draft. The Illustration Guide will be a combination of known examples from the list below, but will attempt to utilize XYZ as names as facts and circumstances may change after the guide is issued. Also, even within the individual forms of entities (such as a quasi official agency) circumstances may vary. Staff will develop examples focusing on substance rather than form. Staff plans to share a draft of this guide with the Task Force for their comments prior to providing it to the FASAB Board. Staff anticipates developing the draft guide for the February or April meeting.

**QUESTION: Does the Board agree with the plan to develop the guide to accompany the standard?**

- Executive Department, listed in the Budget
- Other Agency, listed in the Budget
- Wholly owned or Mixed ownership Government Corporation
- Quasi official agencies
- Government-sponsored enterprises (GSEs)

- Federally funded research and development centers
- Agency-related nonprofit organizations
- Joint ventures or public/private partnerships
- Congressionally chartered nonprofit organizations
- Bailout entities
- Others

Quasi official agencies—The National Archives and Records Administration (NARA) provides the following defining characteristic for quasi official agencies in that they “are not agencies under the definition of 5 U.S.C. 105 but are required by statute to publish certain information on their programs and activities in the Federal Register.”<sup>6</sup> *The United States Government Manual, 2006-2007* contained the following for quasi official agencies: Legal Services Corporation, the Smithsonian Institution, State Justice Institute and the United States Institute of Peace.

Government-sponsored enterprises (GSEs)—GSEs are defined by Congress in enabling legislation. Congress defined the term GSE for budgetary purposes in the Omnibus Reconciliation Act of 1990 as

- a corporate entity created by a law of the United States that —
- (A)
    - (i) has a Federal charter authorized by law;
    - (ii) is privately owned, as evidenced by capital stock owned by private entities or individuals;
    - (iii) is under the direction of a board of directors, a majority of which is elected by private owners;
    - (iv) is a financial institution with power to —
      - (I) make loans or loan guarantees for limited purposes such as to provide credit for specific borrowers or one sector; and
      - (II) raise funds by borrowing (which does not carry the full faith and credit of the Federal Government) or to guarantee the debt of others in unlimited amounts; and
  - (B)
    - (i) does not exercise powers that are reserved to the Government as sovereign (such as the power to tax or to regulate interstate commerce);
    - (ii) does not have the power to commit the Government financially (but it may be a recipient of a loan guarantee commitment made by the Government); and
    - (iii) has employees whose salaries and expenses are paid by the enterprise and are not Federal employees subject to title 5.<sup>7</sup>

Some have argued that the above definition omits an essential characteristic — a GSE “benefits from an implicit federal guarantee to enhance its ability to borrow money.”<sup>8</sup> Congress created GSEs to help make credit more readily available to sectors of the economy believed to be disadvantaged in the credit markets. The following GSEs — Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac) —are investor owned. The Federal Home Loan Bank System and the Farm Credit

<sup>6</sup> United States Government Manual, 2006-2007 p. 555

<sup>7</sup> 104 Stat. 1388-607, Sec. 13112; 2 U.S.C. 622(8).

<sup>8</sup> The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-9

System — are owned cooperatively by their borrowers. The Financing Corporation and the Resolution Funding Corporation are also organizations that were given GSE status. It should be noted that one well-known GSE, Sallie Mae (Student Loan Marketing Association), recently shed its GSE status and become a wholly private firm.<sup>9</sup> While the details may vary from one instance to the next, Congress provides that GSEs typically have four characteristics: private ownership; implicit federal guarantee of obligations; activities limited by congressional charter; and limited competition.<sup>10</sup>

*Federally Funded Research and Development Centers (FFRDCs)*—The FFRDC<sup>11</sup> is a hybrid organization designed to meet a federal need through the use of private organizations. The great strength of FFRDCs appears to lie in their flexibility to assemble teams of technical experts on a project basis. FFRDCs are often difficult to hold accountable. They can have an advantage in competing with private firms for contracts: as nonprofit corporations, they are exempt from most taxation; their facilities and equipment are owned or financed, for the most part, by the federal government, and they receive fees for operating expenses without having to assume business risks or costs associated with competing for most federal work.<sup>12</sup> Federal management of FFRDCs is based upon the Federal Acquisition Regulation (FAR). The FAR provides guidelines to be followed in establishing, organizing, and managing FFRDCs and limits agencies' use of FFRDCs to meet "some long-term research or development need which cannot be met effectively by existing in-house or contractor resources."<sup>13</sup>

*Agency-related nonprofit organizations*—Agency-related nonprofit organizations are organizations that share a legal relationship with a department or agency of the federal government. Over the years, departments and agencies have found it useful and advantageous to ask Congress to create, or authorize a department to create, nonprofit organizations to perform functions that the department itself finds difficult to integrate into its regular policy and financial processes. An example could include when a department or agency receives gifts of real property and monetary gifts. The National Park Foundation is the most prominent example of such an organization, but there are others, such as the National Fish and Wildlife Foundation.

There are many different types of relationships with organizations that may share some sort of legal relationship. The federal government may create organizations with predominately a private-sector legal characteristic to implement government policies

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<sup>9</sup> Ibid, CRS-9

<sup>10</sup> Ibid, CRS-10

<sup>11</sup> FFRDCs is a World War II and postwar phenomenon because in World War II there was a national emergency requirement that scientific and engineering talent be rapidly assembled and put to work. After the war, DOD was reluctant to part with this talent and sought ways to keep them in service to the government. The decision to establish private, nonprofit corporations to do contract work and these corporations would be largely dependent on the federal government contract projects. (The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-14)

<sup>12</sup> The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-16

<sup>13</sup> FAR , 35.017

and regulations. For example, the Securities Investor Protection Corporation (SIPC) and the Public Company Accounting Oversight Board (PCAOB) are agents of and accountable to the government through the Securities and Exchange Commission (SEC). The SIPC is a non-profit corporation under D.C. law, but it is effectively a subsidiary of the SEC because its bylaws are subject to the SEC's adoption, amendment, or rejection. The SIPC also had borrowing authority and a line of credit from Treasury. Likewise, the PCAOB is a non-profit corporation under the DC Nonprofit Corporation Act. However the members of the PCAOB are appointed by the SEC and may be removed for good cause. Also, the rules of the PCAOB are subject to the approval of the SEC.<sup>14</sup>

*Public-private partnerships or joint ventures*—Public-private partnerships are just what the name implies. It is a contractual relationship where the resources, risks, and rewards of both the public agency and a private company are combined for greater efficiency, better access to capital, and improved compliance with a range of government regulations regarding the environment and workplace. The public's interests are fully assured through provisions in the contracts that provide for on-going monitoring and oversight.<sup>15</sup>

*Congressionally chartered nonprofit organizations*-- Congressionally chartered nonprofit organizations also referred to as "title 36 corporations."<sup>16</sup> They represent chartering by Congress of private organizations with a patriotic, charitable, historical, or educational purpose. Examples include the Big Brothers and Sisters of America and the American Legion.

*Bailout entities*-- 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 those that would indicate control. The existence of these rights does not make the bailed out entity part of the federal reporting entity or any of the component reporting entities. Disclosure of the relationship with the bailed out entities and any actual or potential material costs or liabilities would be appropriate.

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<sup>14</sup> The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, CRS Report for Congress RL30533 , CRS-20

<sup>15</sup> The National Council of Public-Private Partnerships Top Ten Facts about PPPs

<sup>16</sup> CRS Report RL30340, *Congressionally Chartered Nonprofit Organizations ("Title 36 Corporations")*: *What They Are and How Congress Treats Them*

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## Introduction

### Purpose

1. The primary reason for defining federal reporting entities is to ensure that users of general purpose federal financial reports<sup>1</sup> (GPFFR) will be provided with complete financial information about federal reporting entities and their involvements. The federal government's relationships with other entities have become increasingly complex and, as such, it is important to develop principles that can be used to identify entities that are required to be consolidated into the government-wide reporting entity and into each component reporting entity's financial statements. Ensuring adequate disclosure or alternate presentation for those entities not consolidated is equally important.
2. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying reporting entities and criteria for including components in a reporting entity, questions have continued in this area that resulted in the need for a standard.<sup>2</sup>
3. This Statement provides principles to guide preparers of GPFFR in determining what is required to be included in a federal reporting entity and how it should be presented.

### Materiality

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

### Effective Date

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

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<sup>1</sup> The term general purpose financial report is used throughout this Statement as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government reporting entity is known as the Financial Report of the U.S. Government and for component reporting entities it usually called the Performance and Accountability Report or the Agency Financial Report.

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

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## Proposed Standards

### Scope

6. 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*.
7. This Statement does not require any entity to prepare and issue GPFFR. The purpose of this Statement is to enable entities preparing and issuing GPFFR to determine what should be included in the federal reporting entity. The Statement provides principles on determining what should be consolidated into the government-wide reporting entity and into each component reporting entity's financial statement and ensures adequate disclosure or alternate presentation of those not consolidated. The Statement also provides information about and required disclosures for related parties.

### Definitions

8. Definitions in paragraphs 9 through 12 are presented first 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.
9. **Federal Reporting Entity** The term "federal reporting entity" refers to both the government-wide reporting entity and component reporting entities that issue a General Purpose Federal Financial Report (GPFFR) because either there is a statutory or administrative requirement to prepare the GPFFR or they choose to prepare one. SFFAC 2 explains for the entity to be a reporting entity,<sup>3</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>3</sup> SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

- c. There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.
10. **Government-wide Reporting Entity** The government-wide reporting entity includes all entities existing within the federal government, which includes 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.
11. **Component Reporting Entity** Component reporting entity is used broadly to refer to a federal reporting entity within a larger federal reporting entity<sup>4</sup> that issues GPFFR. Examples of component reporting entities include entities that are part of the federal government, such as executive departments, legislative agencies, independent agencies, and government corporations. Component reporting entities would also include sub-components (entities that are part of a larger component reporting entity<sup>5</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.
12. **Control** Control is the power to govern the financial and/or operating policies of another entity with expected benefits or the risk of loss<sup>6</sup> to the federal reporting entity.

### **Government-wide Reporting Entity Consolidation, Alternate Presentation, and Disclosure**

13. 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.

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<sup>4</sup> The larger federal reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>5</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.

<sup>6</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.

14. The principles and related criteria described below provide guidance on determining what should be consolidated in the government-wide reporting entity. This Statement provides for certain exceptions to consolidation and also allows for judgment when the preparer has determined alternate presentation or disclosure would provide the most meaningful presentation.<sup>7</sup>

### **Government-wide Reporting Entity Consolidation Principles**

15. Determining whether an entity is consolidated in the government-wide reporting entity involves assessing organizations against the principles below.

#### *In the Budget*

16. An entity listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule *Federal Programs by Agency and Account* should be consolidated in the government-wide reporting entity.
17. Some non-federal entities receiving federal financial assistance<sup>8</sup> are named in the schedule of *Federal Programs by Agency and Account*. A review of the facts and circumstances in each case may suggest that the named entity is not a federal entity, but only an entity receiving federal financial assistance. If so, it should not be consolidated in the government-wide reporting entity based solely on being in the budget. Instead, the entity should be assessed against the next two principles (*Control and Ownership*) to determine if it should be consolidated in the government-wide reporting entity.
18. While the principle *In the Budget* is the most efficient means<sup>9</sup> to identify entities for consolidation, there may be other entities that should be included in the government-wide reporting entity and there are additional principles to be considered when entities are not in the Budget.

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<sup>7</sup> For example there may be certain instances when consolidation may undermine the ability to provide the most meaningful presentation because it may obscure results and make it difficult to separate the activities or certain entities and activities.

<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.

<sup>9</sup> For example, inclusion in the President's Budget is the clearest evidence an entity is federal because absent budgetary actions originating with the President's Budget and leading to appropriations, federal agencies would be unable to continue operations.

*Majority Ownership Interest*

19. 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.
20. 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.
21. Majority ownership interest exists with over 50% of the votes or the net residual assets<sup>11</sup> of an entity. When the federal government holds a majority ownership in an entity it should be consolidated in the government-wide reporting entity.<sup>12</sup>

*Control with Expected Benefits or Risk of Loss*

22. An entity that is controlled by the federal government should be consolidated in the government-wide reporting entity. For these purposes - 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>13</sup> to the federal reporting entity. Both the power and either the expected benefit or risk of loss aspects of the definition should be met to justify consolidation of an entity.
23. Control 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 the legal form of the relationship.
24. 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.
25. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide

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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, 2010*.

<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 should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

<sup>13</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.

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 government. At the other end, the entity will have the power to act independently and, while the federal government may have a level of influence, it will be clear that it does not have control. As noted, much judgment and 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

26. There are indicators 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.
27. Certain indicators<sup>14</sup> provide persuasive evidence that control exists. These indicators are 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; or
  - c. Unilaterally dissolve the entity thereby having access to the assets and responsibility for the obligations.
28. Other indicators, when considered in the aggregate, provide evidence that control exists. These indicators are 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 authorizing the entity to exercise sovereign power of the federal government and requiring the entity to carry out federal missions and objectives;
  - c. Access entity's assets or direct the ongoing use of those assets, or has ongoing responsibility for losses;
  - d. Appoint or remove key executives or personnel;

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<sup>14</sup> The indicators noted in par. 27 and 28 provide support for both the power and/or benefit part of the control definition. As noted in par. 22 a federal reporting entity should meet both the power and benefit elements for determining whether control exists.

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- e. Approve the budgets or business plans for the entity and right to require audits;
  - f. Veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
  - g. Finance the deficits of and provide financial support to or settle liabilities;
  - h. Direct the entity to work with the government to achieve services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services that the federal government provides;
  - i. Establish, rescind, or amend management policies;
  - j. Establish limits or restrictions on borrowing and investments of the entity; or
  - k. Restrict the capacity to generate revenue of the entity, especially the sources of revenue.

#### Situations Where Control Does Not Exist

- 29. Because of the uniqueness of the federal government, control would not be inferred from:
  - a. The authority to exercise regulatory powers over an entity; or
  - b. Economic dependency of the entity on the federal government.
- 30. The federal government has the power to regulate many entities by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of entities by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated entities make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes of this Statement because the federal government's interest in these entities extends only to the regulatory aspects of the operations.
- 31. Certain entities may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many not-for-profits rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence entities dependent on federal funding or business through purchasing power, the federal government does not govern their financial and operating policies.

**Consolidation EXCEPTIONS**

32. Full consolidation may not be the best alternative for meeting the basic qualitative characteristics of information in financial reports and it is less clear that full consolidation always provides the most relevant, understandable, or consistent measure.
33. This Statement provides exceptions from consolidation for the following: federal governmental intervention actions, receiverships and conservatorships, and quasi governmental financially independent entities.
34. Although entities in these types of relationships are not consolidated, the transactions are still accounted for based on the GAAP standards and reflected in the financial statements of the consolidated entity.

**Exception—Federal Government Intervention Actions**

35. The federal government with its broad responsibility may often intervene for the well being of the country, but those actions are not expected to be permanent. 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.
36. Although there is no specific time limit, the federal government's intention is not to make such interventions permanent. Typically federal government intervention actions in these instances are not routine activities and strategic planning documents are unlikely to include objectives to routinely initiate such interventions.
37. Examples of intervention actions are:
  - a. Temporary control-- the federal government seizes control of an established entity but plans to relinquish or cede control.
  - b. Temporary ownership--the federal government acquires an ownership interest of an entity but plans to end its interests as soon as practicable.
38. Temporary situations that exist at fiscal year-end<sup>15</sup> must be assessed to confirm they are not expected to be permanent.
39. Entities where the federal government has intervened should be excluded from consolidation. Disclosures should include the following for each significant<sup>16</sup> entity:

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<sup>15</sup> Temporary situations may last several reporting periods. In such situations, the government-wide reporting entity should confirm such conditions are not likely to remain in existence permanently as of each reporting period.

- a. Name and description of the entity;
- b. Nature of the federal government's relationship with the entity and if applicable, if the entity was being controlled and/or the percentage of ownership interest and voting rights;
- c. Primary reasons for and description of the intervention actions, brief description of any exit strategy<sup>17</sup> or other information relating the intervention is not expected to be permanent and timeframes; and
- d. Present Summary Financial Statements or Information that would provide an understanding of the 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.<sup>18</sup>

#### Exception-- Receiverships and Conservatorships

40. There are certain federal entities whose mission may include taking control or ownership of failed financial institutions such as banks 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>19</sup>
41. The entities related to these types of activities should be excluded from consolidation.<sup>20</sup> Disclosures should include the following:
  - a. Nature and description of the federal reporting entity's relationship with the entities.
  - b. Information that would provide an understanding of the 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 Other Accompanying Information (OAI).

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<sup>16</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.

<sup>17</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>18</sup> The determination as to whether summary financial statements or other information is disclosed is made by the preparer based on materiality and significance of the federal government intervention actions.

<sup>19</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>20</sup> This exception differs slightly from the federal interventions because receivership activities are considered part of the normal activities and mission of the federal reporting entities that perform them and the duration is typically shorter. The disclosures required are consistent with existing practices.

Exception-Quasi Governmental Financially Independent Entities<sup>21</sup>

42. Quasi Governmental Financially Independent Entities are hybrid entities where accountability and transparency of these unique organizations are important yet they differ in key areas that would make information less meaningful and results obscure if consolidated.
43. These entities differ when assessing the governance and financial (risk and rewards) areas. Although the entities receive limited or no taxpayer support, limited risks or rewards fall to the taxpayers yet accountability rests with federal or elected officials.
44. Governance differences lead to greater independence. Characteristics may include the following:
  - a. Longer appointments, not dominated by elected officials.
  - b. Delegated operational authority to carry on a business in a manner similar to private business enterprises.
  - c. May possess private sector legal characteristics or be voluntarily affiliated with purposes to implement government policies.
45. Financial differences lead to greater fiscal autonomy. Characteristics may include the following:
  - a. Primary funding is derived from a source other than through appropriations.
  - b. Delegated financial authority to carry on business in a manner similar to private business enterprises.
  - c. Sells goods and/or services to individuals outside of the government reporting entity as its principal activity.
  - d. Intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
46. Quasi Governmental Financially Independent Entities should be excluded from consolidation in the government-wide reporting entity. Disclosures should include the following for each significant<sup>22</sup> entity:
  - a. Name and description of the entity;

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<sup>21</sup> Quasi Governmental Financially Independent Entities is used to describe the entities, none of the terms should be viewed exclusively, for example Congress establishes independent agencies (such as NASA) that are simply not under an established department.

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

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- b. Nature of the federal government's relationship with the entity and if applicable, if the entity was being controlled and/or the percentage of ownership interest and voting rights; and
  - c. Present Summary Financial Statements or Information that would provide an understanding of the 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.<sup>23</sup>
47. Examples of Quasi Governmental Financially Independent Entities and the appropriate reporting are described in the following paragraphs OR PUT IN THE GUIDE. This Statement allows for judgment and the preparer to determine the most meaningful alternate presentation for entities not consolidated.

#### Jointly Funded Museums and Performing Arts Organizations and Universities

48. 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.
49. 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 as stewards of the donated funds.
50. If the federal government provides 80% or more of the total funding, the entity should be consolidated in the government-wide reporting entity.
51. 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 following should be disclosed:
- a. Name 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;

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<sup>23</sup> The determination as to whether summary financial statements or other information is disclosed is made by the preparer based on materiality and significance of the Quasi Governmental Financially Independent Entity.

- c. Condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues; and
- d. Information that would provide an understanding of the potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the government-wide reporting entity.

### **Related Party Government-wide Reporting Entity**

52. Although related party relationships exist among the component entities of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and are not subject to the related party disclosure requirements. The government-wide reporting entity is presented on a consolidated basis and the transactions are eliminated to accurately reflect the distinctive nature of the federal government and provide information useful to and understood by the citizens, their elected representatives, federal executives, and program managers.<sup>24</sup>
53. However, a component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transactions or when the preparer deems disclosure necessary.
54. Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the government-wide reporting entity because:
  - (a) Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives;
  - (b) Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship; and
  - (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.
55. **Related Party** parties are considered to be related if the entity was established<sup>25</sup> by the federal government, if the entity can be significantly

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<sup>24</sup> Par, 21 of SFFAC 1, *Objectives of Federal Financial Reporting* states that “federal financial reporting helps to fulfill the government’s duty to manage programs economically, efficiently, and effectively and to be publicly accountable.”

<sup>25</sup> Established by the federal government would exclude geographical political jurisdictions established by the federal government, (e.g., U.S. territories and insular areas, and the District of Columbia) because they have a different status under the U.S. Constitution. It also would not include those whose existence

influenced in making financial and operating decisions, or if the federal government has an ownership interest<sup>26</sup> but the entity was is not included in the government-wide reporting entity.

56. **Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may also be gained by an ownership interest.

#### Related Party Disclosures for Government-wide Reporting Entity

57. For any Related Party, 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, if the entity was being influenced and/or the percentage of ownership interest and voting rights; and
  - c. Other information that would provide an understanding of the 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.

#### **Misleading to Exclude Principle**

58. There may be instances when an entity does not meet the consolidation principles included in this standard (ie. It is not included in the Federal Programs by Agency and Account and it may be difficult to provide sufficient evidence it meets the control principle) yet the government-wide financial report would be misleading or incomplete if the entity were excluded.<sup>27</sup> For entities meeting the Misleading to Exclude principle, the following should be disclosed:
- a. Name and description of the entity; and
  - b. Information that would provide an understanding of the 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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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>26</sup> Included means consolidated or disclosed with alternate presentations of summary financial information.

<sup>27</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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## Part II of Proposed Standard

### Component Reporting Entities

#### Component Reporting Entity Consolidation, Alternate Presentation, and Disclosure

##### Component Reporting Entity Consolidation Principles and Criteria

##### Exceptions

##### Related Party for Component Reporting Entity

Related party relationships exist among the component entities of the federal government because component entities are subject to the overall direction and operate together to achieve the policies of the federal government. A component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transaction or when the preparer deems disclosure necessary.

Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the component reporting entity because:

- (a) Related party relationships can influence the way in which the component operates with other entities in achieving its individual objectives;
- (b) Related party relationships might expose the component to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

**Related Party** parties are considered to be related if the component entity can significantly influence the entity in making financial and operating decisions; the component has an ownership interest to significantly influence an entity or if the entity was created by the component but it is not included<sup>28</sup> in the component reporting entity.

##### Related Party Disclosures for Component Reporting Entity

For any Related Party, the following should be disclosed:

- a. Name and description of the entity;

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<sup>28</sup> Included means consolidated or disclosed with alternate presentations of summary financial information.

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- b. Nature of the component's relationship with the entity and if applicable, if the entity was being influenced and/or 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 component reporting entity resulting from the relationship.

### **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**

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

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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**NOTE: Par. 1- 30 are basically the same in the two versions.**

### **Consolidation EXCEPTION**

31. Full consolidation may not be the best alternative for meeting the basic qualitative characteristics of information in financial reports and it is less clear that full consolidation always provides the most relevant, understandable, or consistent measure.
32. This Statement provides an exception from consolidation for temporary control and ownership.
33. Although entities in these types of relationships are not consolidated, the transactions are still accounted for based on the GAAP standards and reflected in the financial statements of the consolidated entity.

#### Exception—Temporary Control and Ownership

34. The federal government with its broad responsibility may take temporary control or ownership, but those actions are not expected to be permanent. Although there is no specific time limit, the federal government's intention is not to make it permanent.
35. Examples of temporary actions are:
  - a. Temporary control-- the federal government seizes control of an established entity but plans to relinquish or cede control.
  - b. Temporary ownership--the federal government acquires an ownership interest of an entity but plans to end its interests as soon as practicable.
36. Temporary situations that exist at fiscal year-end<sup>1</sup> must be assessed to confirm they are not expected to be permanent.
37. Entities where the federal government has temporary ownership or control should be excluded from consolidation. Disclosures should include the following for each significant<sup>2</sup> entity:
  - a. Name and description of the entity;

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<sup>1</sup> Temporary situations may last several reporting periods. In such situations, the government-wide reporting entity should confirm such conditions are not likely to remain in existence permanently as of each reporting period.

<sup>2</sup> Determining significant entities should be based on both quantitative and qualitative materiality considerations. Information about other entities not deemed material, may be aggregated.

- b. Nature of the federal government's relationship with the entity and if applicable, if the entity was being controlled and/or the percentage of ownership interest and voting rights;
- c. Primary reasons for and description of the temporary actions, brief description of any exit strategy<sup>3</sup> or other information relating to the timeframes; and
- d. Present Summary Financial Statements or Information that would provide an understanding of the 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.<sup>4</sup>

### Related Party

38. Related party relationships exist between the federal government and entities outside the federal government, because:
  - (a) The federal government may create an entity to operate independent of the political process to achieve the policies of the government.
  - (b) The federal government can control or exert significant influence over the operations of an entity dependent on it.
  - (c) The federal government can possess an ownership interest in an entity.
  - (d) Other types of related parties.
39. Although related party relationships exist among the components of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and are not subject to the related party disclosure requirements in the government-wide reporting entity.<sup>5</sup> The government-wide reporting entity is presented on a consolidated basis and the transactions are eliminated to accurately reflect the distinctive nature of the federal government and provide information useful to and understood by the citizens, their elected representatives, federal executives, and program managers.<sup>6</sup>

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<sup>3</sup> The brief narrative may include options being considered, plans for ending the temporary situation, information regarding the length of such arrangement or plans to change terms of such arrangement.

<sup>4</sup> The determination as to whether summary financial statements or other information is disclosed is made by the preparer based on materiality and significance of the temporary situation and other factors deemed important.

<sup>5</sup> Related Party for Component Reporting Entities is discussed under the Component Reporting Entity Below.

<sup>6</sup> Par. 21 of SFFAC 1, *Objectives of Federal Financial Reporting* states that "federal financial reporting helps to fulfill the government's duty to manage programs economically, efficiently, and effectively and to be publicly accountable."

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40. However, a component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transactions or when the preparer deems disclosure necessary.
41. Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the government-wide reporting entity because:
- (a) Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives;
  - (b) Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship; and
  - (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.
42. **Related party** parties are considered to be related if the entity was established<sup>7</sup> by the federal government, has the ability to control or exercise significant influence over an entity in making financial and operating decisions, the federal government has an ownership interest in an entity or if the entity was created by the federal government with the intent to operate independent of the political process to achieve the policies of the government but is not included in the consolidated in the government-wide reporting entity.
43. **Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may also be gained by an ownership interest.
44. For any Related Party, 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, if the entity was being controlled and/or the percentage of ownership interest and voting rights; and
  - c. Present Summary Financial Statements or Information that would provide an understanding of the potential financial reporting impact,

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<sup>7</sup>Established by the federal government would exclude geographical political jurisdictions established by the federal government, (e.g., U.S. territories and insular areas, and the District of Columbia) because they have a different status under the U.S. Constitution. It also 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).

including financial-related exposures to potential gain and risk of loss to the government-wide reporting entity resulting from the relationship.<sup>8</sup>

### **Misleading to Exclude Principle**

45. There may be instances when an entity does not meet the consolidation principles included in this standard (ie. It is not included in the Federal Programs by Agency and Account and it may be difficult to provide sufficient evidence it meets the control principle) yet the government-wide financial report would be misleading or incomplete if the entity were excluded.<sup>9</sup> For entities meeting the Misleading to Exclude principle, the following should be disclosed:
- a. Name and description of the entity; and
  - b. Information that would provide an understanding of the 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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## **Part II of Proposed Standard**

### **Component Reporting Entities**

#### **Component Reporting Entity Consolidation, Alternate Presentation, and Disclosure**

##### **Component Reporting Entity Consolidation Principles and Criteria**

##### **Exceptions**

##### **Related Party for Component Reporting Entity**

Component Entity Reports are not a consolidation of a single economic reporting entity. Therefore the issue of whether other component relationships should be considered for related parties for disclosure must be assessed slightly different—from the component entity perspective.

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<sup>8</sup> The determination as to whether summary financial statements or other information is disclosed is made by the preparer based on materiality and significance of the related party relationship.

<sup>9</sup> Although situations such as this would be considered unique or rare, this Statement provides for situations that could potentially arise.

Related party relationships exist among the component entities of the federal government because component entities are subject to the overall direction and operate together to achieve the policies of the federal government. Component entities should be disclosed as a related party if deemed material when significant transactions did not meet arms length transaction or when the preparer deems disclosure necessary.

Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the component reporting entity because:

- (a) Related party relationships can influence the way in which the component operates with other entities in achieving its individual objectives;
- (b) Related party relationships might expose the component to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

**Related Party** parties are considered to be related if the component entity can significantly influence entity in making financial and operating decisions; the component has an ownership interest to significantly influence an entity or if the entity was created by the component but it is not included<sup>10</sup> in the component reporting entity.

### **Related Party Disclosures for Component Reporting Entity**

For any Related Party, the following should be disclosed:

- a. Name and description of the entity;
- b. Nature of the component's relationship with the entity and if applicable, if the entity was being influenced and/or 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 component reporting entity resulting from the relationship.

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<sup>10</sup> Included means consolidated or disclosed with alternate presentations of summary financial information.

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**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**

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

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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## **Related Party Issue Paper**

### **Background**

As you may recall, FASAB completed the American Institute of Certified Public Accountants (AICPA) Omnibus project to adopt certain accounting and financial reporting guidance that resided in the AICPA statements on auditing standards (SAS). At the August 2009 meeting, the Board discussed whether to adopt the AICPA guidance concerning related parties. The Board recognized FASAB had an on-going Entity project to determine what entities should be included in the federal entity which impacted how it approached the related parties. The Board decided to continue research on related parties as part of the Entity project and noted this in the basis for conclusion of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

### **Existing Guidance on Related Party**

Federal agencies typically purchase goods and services from other federal agencies or organizational units within the same agency. FASAB standards providing guidance in this area include, but are not limited to:

- a. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*;
- b. SFFAS 5, *Accounting for Liabilities of the Federal Government*;
- c. SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; and
- d. SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

For example, SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended, discusses inter-entity revenue and requires disclosure of the nature of intragovernmental exchange transactions in which an entity provides goods or services at a price less than full cost or does not charge a price at all.

In addition, Office of Management and Budget (OMB) Circular A-136 requires entities to report intragovernmental assets separately from those with non-federal entities and to disclose intragovernmental costs and revenue separately from costs and revenue with the public.

Beyond this, presently federal agencies are required to look to the GAAP hierarchy for guidance. Related party guidance most often cited has been the Financial Accounting Standards (FASB) 57, *Related Parties Disclosures* (FASB ASC 850).

## **Board Member Input on Related Party Issue**

At the August 2009 Board meeting, the Board members appeared in agreement to focus related parties efforts on those entities outside of the federal government. They agreed that although components of the federal government are related parties; expanded reporting of these relationships is not needed because existing guidance covers intra-governmental transactions. However, the Board agreed the intent of the related party disclosures is to explain when there is a potentially other than arm's-length transaction between two entities-- even if these are component entities when the transactions are significant and disclosure is deemed necessary by the preparer. There ought to be disclosure in the footnotes about that relationship and the nature of the transactions. For example, the consolidated financial report of the US government presently discloses information about the relationship with the Federal Reserve as there are material transactions with the Federal Reserve and they may not be at arm's-length.

## **Current Reporting Practices**

Staff performed a cursory review<sup>1</sup> of the related party information presented in the CFR and component reports. Based on this review, it appears there may be some inconsistency in reporting by components and there may be questions as to what information is included in component reports but not reported in the CFR. For example, certain components such as the Export Import Bank and Railroad Retirement Board reported Treasury as a related party. In addition, the Department of Transportation included a disclosure regarding possession of Amtrak preferred stock shares, but this wasn't included in the CFR.

In staff's brief review of 35 agency reports, 6 reports contained a related party footnote, while the other reports did not. For the Board members reference, sample related party disclosures are included as **Attachment 1** to this paper.

## **Consideration of Other Standard Setters**

Staff considered Related Party standards of other standard setters. Excerpts from IPSASB, GASB and FASB are included at **Attachment 2** to this paper. Staff believes the ISPASB model is most relevant and found the following sections of particular interest.

18. Related party relationships exist throughout the public sector, because:
- (a) Administrative units are subject to the overall direction of the executive government and, ultimately, the Parliament or similar body of elected or appointed officials, and operate together to achieve the policies of the government;

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<sup>1</sup> This review was considered a cursory review of reports to review the related party disclosures, an assessment of reporting practices would require a survey and interviews to assess whether related material related party transactions exist.

## ***Attachment 3--Related Party Issue Paper***

- (b) Government departments and agencies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and
- (c) Ministers or other elected or appointed members of the government and senior management group can exert significant influence over the operations of a department or agency.

19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes and enables users to better understand the financial statements of the reporting entity because:

- (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;
- (b) Related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies where goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments and individual public sector entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with IPSAS 6. Transactions with associated entities accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.

### **Staff Analysis**

The Board decided against adopting the AICPA auditing literature regarding related parties essentially “as is” because doing so may not have provided the federal financial reporting community with meaningful guidance at the time because

1. Existing AICPA language for related parties was not readily adaptable to the federal government environment.
2. Definition of related parties for federal reporting entities was needed.

The Board believed this should be done in conjunction with the federal entity project because there may be a fine line between the federal entity and related parties.

As Board members appeared in agreement the focus of related parties should be on those entities outside the federal government and not on those within the

### **Attachment 3--Related Party Issue Paper**

federal government as existing guidance covers reporting of intra governmental transactions. However, the Board agreed the intent of the related party disclosures is to explain when there is other than a potential arm's-length transaction between two entities. Staff believes the standard should recognize these relationships and be explicit to ensure consistent reporting.

For example, IPSASB states “Departments are related parties because they are subject to common control and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these entities is not required where the transactions are consistent with normal operating relationships between the entities, and are undertaken on terms and conditions that are normal for such transactions in these circumstances. The exclusion of these related party transactions from the disclosure requirements of paragraph 27 reflects that public sector entities operate together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities in different jurisdictions. This Standard requires disclosures of related party transactions only when those transactions occur other than in accordance with the operating parameters established in that jurisdiction.”

IPSASB also notes in its standard “Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with IPSAS 6. Transactions with associated entities accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.”

#### **STAFF RECOMMENDATION -- FASAB APPROACHES**

Staff proposes TWO possible approaches to the Related Party Issue which correspond with the two approaches in the proposed Standard:

1. Related Party- narrow Related Party reporting (most of the entities would be consolidated or considered an exception (though still a federal entity) to consolidation with alternate reporting disclosures).
2. Related Party –broad Related Party reporting (most of the entities would be consolidated, but if not consolidated the entities might be considered a Related Party but not a federal entity).

One of the main differences between the two versions is that in the Narrow version—the Exceptions from consolidation are just that—*exception from consolidation*—they are still considered federal entities, but not consolidated; whereas in the Broad version, the related party focus is broader and more entities may fall within the related party area versus being considered a federal entity.

There is also a difference in the definition of Related Party for the two versions. The Broad version takes a broader view of related parties and includes more

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things in the related party, whereas the narrow version relies on the entity definition (and exceptions) to address controlled entities. Therefore, the related party definition in the narrow approach focus is solely on entities the federal government can significantly influence.

As a result, the main difference in the two approaches is the scope of related parties. The narrow Related Party version would identify parties the federal government significantly influences as related parties. Most entities having other relationships would be either consolidated or considered an exception (though still a federal entity) to consolidation but with alternate reporting (note disclosures-summary financial statements) required. In the broad Related Party version, the federal entities that were considered an exception in the narrow version might instead be reported as a related party.

It is important to note that from the audit perspective, specific audit procedures are prescribed for related parties in AU Section 334 *Related Parties*.

#### **#1 Related Party- narrow Related Party Reporting (most of the relationships would be consolidated or considered an exception to consolidation (still a federal entity) with alternate reporting disclosures, minimal reporting in Related Party)**

Although related party relationships exist among the component entities of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and are not subject to the related party disclosure requirements. The government-wide reporting entity is presented on a consolidated basis and the transactions are eliminated to accurately reflect the distinctive nature of the federal government and provide information useful and understood to the citizens, their elected representatives, federal executives, and program managers.<sup>2</sup>

However, a component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transactions or when the preparer deems disclosure necessary.

Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the government-wide reporting entity because:

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<sup>2</sup> Par, 21 of SFFAC 1, *Objectives of Federal Financial Reporting* states that “federal financial reporting helps to fulfill the government’s duty to manage programs economically, efficiently, and effectively and to be publicly accountable.”

## **Attachment 3--Related Party Issue Paper**

- (a) Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives;
- (b) Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

**Related Party** parties are considered to be related if the entity was established<sup>3</sup> by the federal government, if the entity can be significantly influenced in making financial and operating decisions, or if the federal government has an ownership interest but the entity is not included<sup>4</sup> in the government-wide reporting entity.

**Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may also be gained by an ownership interest.

### **Related Party Disclosures for Government-wide Reporting Entity**

For any Related Party, the following should be disclosed:

1. Name and description of the entity;
2. Nature of the federal government's relationship with the entity and if applicable, if the entity was being influenced and/or the percentage of ownership interest and voting rights; and
3. Other information that would provide an understanding of the 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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<sup>3</sup> Established by the federal government would exclude geographical political jurisdictions established by the federal government, (e.g., U.S. territories and insular areas, and the District of Columbia) because they have a different status under the U.S. Constitution. It also 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>4</sup> Included means consolidated or disclosed with alternate presentations of summary financial information.

**Related Party for Component Reporting Entity (This is shaded because it relates to the Component Reporting Entity. Although all Board deliberations up to this point have been on the government-wide reporting entity, it was difficult to consider the Related Party issue without also considering the component reporting issue.)**

Component Entity Reports are not a consolidation of a single economic reporting entity. Therefore the issue of whether other component relationships should be considered for related parties for disclosure must be assessed slightly different— from the component entity perspective.

The language, definitions and so forth would be very similar as follows. For example, using the narrow approach it would be:

**Component Reporting Entity--**

Related party relationships exist among the component entities of the federal government because component entities are subject to the overall direction and operate together to achieve the policies of the federal government. A component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transaction or when the preparer deems disclosure necessary.

Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the component reporting entity because:

- (a) Related party relationships can influence the way in which the component operates with other entities in achieving its individual objectives;
- (b) Related party relationships might expose the component to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

**Related Party** parties are considered to be related if the component entity can significantly influence the entity in making financial and operating decisions; the component has an ownership interest to significantly influence an entity or if the

entity was created by the component but it is not included<sup>5</sup> in the component reporting entity.

### **Related Party Disclosures for Component Reporting Entity**

For any Related Party, the following should be disclosed:

1. Name and description of the entity;
  2. Nature of the component's relationship with the entity and if applicable, if the entity was being influenced and/or the percentage of ownership interest and voting rights; and
  3. Other information that would provide an understanding of the potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the component reporting entity resulting from the relationship.
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## **#2 Related Party –BROAD approach to Related Party Reporting**

Related party relationships exist between the federal government and entities outside the federal government, because:

- (a) The federal government may create an entity to operate independent of the political process to achieve the policies of the government.
- (b) The federal government can control or exert significant influence over the operations of an entity dependent on it.
- (c) The federal government possesses an ownership interest in an entity.
- (d) Other types of related parties.

Although related party relationships exist among the components of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and are not subject to the related party disclosure requirements in the government-wide reporting entity.<sup>6</sup> The government-wide reporting entity is presented on a consolidated basis and the transactions are eliminated to accurately reflect the distinctive nature of the federal government and provide information useful and understood

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<sup>5</sup> Included means consolidated or disclosed with alternate presentations of summary financial information.

<sup>6</sup> Related Party for Component Reporting Entities is discussed under the Component Reporting Entity Below.

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to the citizens, their elected representatives, federal executives, and program managers.<sup>7</sup>

However, a component entity should be disclosed as a related party if deemed material when significant transactions are not arms length transaction or when the preparer deems disclosure necessary.

Disclosure of certain related party relationships is necessary for accountability purposes and enables users to better understand the financial statements of the government-wide reporting entity because:

- (a) Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives;
- (b) Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

**Related party** parties are considered to be related if the entity was established<sup>8</sup> by the federal government, has the ability to control or exercise significant influence over an entity in making financial and operating decisions, the federal government has an ownership interest in an entity or if the entity was created by the federal government with the intent to operate independent of the political process to achieve the policies of the government but is not consolidated in the government-wide reporting entity.

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<sup>7</sup> Par, 21 of SFFAC 1, *Objectives of Federal Financial Reporting* states that “federal financial reporting helps to fulfill the government’s duty to manage programs economically, efficiently, and effectively and to be publicly accountable.”

<sup>8</sup> Established by the federal government would exclude geographical political jurisdictions established by the federal government, (e.g., U.S. territories and insular areas, and the District of Columbia) because they have a different status under the U.S. Constitution. It also 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).

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**Significant influence** is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may also be gained by an ownership interest.

#### **Related Party Disclosures for Government-wide Reporting Entity**

For any Related Party, the following should be disclosed:

1. Name and description of the entity;
2. Nature of the federal government's relationship with the entity and if applicable, if the entity was being controlled and/or the percentage of ownership interest and voting rights; and
3. Present Summary Financial Statements or Information that would provide an understanding of the 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.<sup>9</sup>

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<sup>9</sup> The determination as to whether summary financial statements or other information is disclosed is made by the preparer based on materiality and significance of the related party relationship.

## **ATTACHMENT 1—RELATED PARTY DISCLOSURES**

### **CFR**

#### **S. Related Party Transactions**

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depository and fiscal agents. They process Federal payments and deposits to the Treasury General Account (which functions as the government's checking account for deposits and disbursements) and service Treasury securities. As of September 30, 2009, the FRBs had total holdings of \$769.2 billion, with a very small amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2008, the FRBs owned \$221.3 billion, net of \$255.3 billion in securities lent to dealers and not collateralized by other Treasury securities, for total holdings of \$476.6 billion. These securities are held in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy. Additionally, under the Supplementary Financing Program (SFP), the Government had on deposit \$165 billion and \$300 billion with the Federal Reserve as of September 30, 2009, and 2008 respectively, to support Federal Reserve initiatives (see Note 2—Cash and Other Monetary Assets). FRBs earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled \$34.3 billion and \$33.6 billion for the years ended September 30, 2009, and 2008, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, the FRBs hold Special Drawing Rights Certificates (SDRCs) (see Note 19—Other Liabilities, international monetary liabilities and gold certificates). The U.S. Government—primarily Treasury and the Federal Deposit Insurance Corporation—and the Board of Governors of the Federal Reserve System and the FRBs engaged in concurrent and/or coordinated actions during fiscal years 2008 and 2009 to help stabilize the financial system and the housing market. See further details in Note 5—TARP Direct Loans and Equity Investments, net, Note 6—Beneficial Interest in Trust, and Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization. FRBs issue Federal Reserve notes, the circulating currency of the United States. Specific assets owned by FRBs, typically Treasury securities, collateralize these notes. Federal Reserve notes are backed by the full faith and credit of the Government. The Government generally does not guarantee payment of the liabilities of Government Sponsored Enterprises such as Fannie Mae, Freddie Mac, or the Federal Home Loan Banks, which are privately owned. Fannie Mae and Freddie Mac have been placed under conservatorship as of September 7, 2008, and as of September 30, 2009, the Government has committed to provide up to \$400 billion in capital to Fannie Mae and Freddie Mac to the extent that these entities liabilities exceed assets (see Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization). See Note 28—Subsequent Events regarding modification to the amount available to Fannie Mae and Freddie Mac. These entities also are excluded from the reporting entity.

### **Transportation**

#### **Related Parties**

The Secretary of Transportation has possession of all the preferred stock shares (109,396,994) of the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). Congress through the Department continues to fund Amtrak since 1981; originally through the purchase of preferred stock and the through grants after 1997. The Amtrak Reform and Accountability Act of 1997 changed the structure of the preferred stock by rescinding the voting rights and eliminating the preferred stock's liquidation over the common stock. The Act also eliminated further issuance of preferred stock to the Department. The Department does not record the Amtrak stock in its financial statements because it is not publicly traded and no fair market value can be placed on it.

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Amtrak is not a department, agency or instrumentality of the United States Government or the Department. The nine members of Amtrak's Board of Directors are appointed by the President of the United States and are subject to confirmation by the United States Senate. Once appointed, Board Members, as a whole, act independently without the consent of the United States government or any of its officers to set Amtrak policy, determine its budget and decide operational issues. The Secretary of Transportation is statutorily appointed to the nine members Board. Traditionally, the Secretary of Transportation has design at the Administrator of the Federal Rail Administration to represent the Secretary at Board meetings (See Note 17).

### **Treasury**

#### **Related Parties**

The primary "related parties" with whom the Treasury Department conducts business are other federal agencies, mainly through the normal lending activities of the BPD and the Federal Financing Bank. These activities are disclosed in these financial statements. The Treasury Department utilizes the services of the Federal Reserve to execute a variety of transactions on behalf of the BPD and the Exchange Stabilization Fund. The Federal Reserve is serving as the Treasury Department's fiscal agent in executing these transactions and receives fees for its services. The Treasury Department also consults with the Federal Reserve on matters affecting the economy, such as the structuring of bailout financing for American International Group and other companies affected by the current economic situation. However, these actions do not involve transactions between the Treasury Department and the Federal Reserve.

Finally, the Secretary of the Treasury serves on the Federal Housing Finance Administration (FHFA) Oversight Board, and consults with the Director of FHFA in matters involving Fannie Mae and Freddie Mac. This provides the Treasury Department a voice in the FHFA's actions as the conservator for Fannie Mae and Freddie Mac, and thus some influence over major decisions involving Fannie Mae and Freddie Mac. The Treasury Department has no transactions with FHFA; transactions and balances arising from transactions with Fannie Mae and Freddie Mac are accounted for and disclosed in these financial statements.

### **Farm Credit System Insurance Corporation**

#### **Note 6 — Related Parties**

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation had payables due to the FCA of \$105,483 at December 31, 2009 and \$57,419 at December 31, 2008. The Corporation purchased services for 2009 which totaled \$345,573 compared with \$134,639 for 2008.

The Corporation provides assistance to the FCA under the same Interagency Agreement, recognizing revenue of zero for 2009 and 2008. At December 31, 2009, and 2008, the Corporation did not have any receivables from the FCA.

### **National Science Foundation**

#### **Note 15. Related Party Transactions**

The National Science Board (NSB) is a group of 24 members appointed by the President and confirmed by the Senate. Board Members are drawn from industry and universities. On September 30, 2009, there were 22 seated members and 2 vacancies. Members of the Board may

## **Attachment 3--Related Party Issue Paper**

be affiliated with institutions that are eligible to receive grants and awards from NSF. The Director of NSF is also a member of the NSB but does not receive any awards or grants from NSF. In accordance with GAAP reporting requirements, NSF identifies those transactions as Related Party Transactions and discloses the total awards for those transactions to the public.

Total new awards issued and the total outstanding balances for Related Party Transactions as of September 30 are as follows:

(Amounts in Thousands)	2009	2008
New Awards and Modifications	\$ 742,399	\$ 523,575
Total Outstanding at September 30	\$ 855,131	\$ 604,846

### **Export Import Bank**

The financial statements reflect the results of contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed-rate and variable-rate loans to foreign borrowers to purchase U.S. made equipment when such loans are not available from traditional private-sector lenders on competitive terms. Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board and exporters' council.

PEFCO has agreements with Ex-Im Bank which provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured debt obligations when requested by PEFCO. Such guarantees, aggregating \$4,998.3 million at September 30, 2009 (\$4,208.8 million related to export loans and \$789.5 million related to secured debt obligations) and \$4,735.3 million at September 30, 2008 (\$4,091.4 million related to export loans and \$643.9 million related to secured debt obligations), are included by Ex-Im Bank in the total for guarantee, insurance and undisbursed loans, and the allowance related to these transactions is included in the Guaranteed-Loan Liability on the Balance Sheets. Ex-Im Bank received fees totaling \$42.4 million in FY 2009 (\$42.2 million related to export loans and \$0.2 million related to secured-debt obligations) and \$35.9 million in FY 2008 (\$35.7 million related to export loans and \$0.2 million related to secured-debt obligations) for the agreements, which are included in fee revenue on the Statements of Net Costs.

In addition, Ex-Im Bank purchased approximately \$220.0 million of loans from PEFCO on December 23, 2008. These loans are included in Loans Receivable, Net on the Balance Sheet.

Ex-Im Bank has significant transactions with the U.S. Treasury. The U.S. Treasury, although not exercising control over Ex-Im Bank, holds the capital stock of Ex-Im Bank creating a related-party relationship between Ex-Im Bank and the U.S. Treasury.

### **Railroad Retirement Board**

#### **Related Parties**

The RRB has significant transactions with the following governmental and nongovernmental entities:

### ***Attachment 3--Related Party Issue Paper***

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2009 and 2008, net payroll taxes transferred to the RRB by Treasury were \$4.7 billion and \$4.9 billion, respectively.

Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2009 and 2008, investments, including accrued interest, totaled \$1.2 billion and \$1.4 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2009 due to the financial interchange advances during fiscal year 2008 included principal of \$3.4 billion and interest of \$171 million. The amount paid by the RRB to Treasury in fiscal year 2008 due to the financial interchange advances during fiscal year 2007 included principal of \$3.2 billion and interest of \$181.4 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2009, the RRB trust funds realized \$4.1 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2009 and 2008 were \$1.3 billion and \$1.2 billion, respectively.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred \$524 million and \$526 million to CMS in fiscal years 2009 and 2008, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2009 and 2008 were \$10.5 million and \$9.2 million, respectively.
  - The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of \$3.3 million for fiscal year 2009 and \$3.4 million in 2008.
  - The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to \$36 million and \$110 million for fiscal years 2009 and 2008, respectively.
  - The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2009 and 2008, the NRRIT transferred \$1,553 million and \$1,298 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.
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## **Attachment 2**

### **IPSASB**

#### **IPSAS 20, *Related Party Disclosures***

##### **Definition**

**Related party** parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- (b) Associates (see IPSAS 7, “Investments in Associates”);
- (c) Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- (d) Key management personnel, and close members of the family of key management personnel; and
- (e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.

**Related party transaction** is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

**Significant influence** (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 7.

##### **Related Parties**

10. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

11. Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

12. In the context of this Standard, the following are deemed not to be related parties:

- (a) (i) Providers of finance in the course of their business in that regard; and
- (ii) Trade unions; in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and
- (b) An entity with which the relationship is solely that of an agency.

13. Related party relationships may arise when an individual is either a member of the governing body or is involved in the financial and operating decisions of the reporting entity. Related party relationships may

## **Attachment 3--Related Party Issue Paper**

also arise through external operating relationships between the reporting entity and the related party. Such relationships will often involve a degree of economic dependency.

14. Economic dependency, where one entity is dependent on another in that it relies on the latter for a significant volume of its funding or sale of its goods and services, would on its own be unlikely to lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. As such, a single customer, supplier, franchisor, distributor, or general agent with whom a public sector entity transacts a significant volume of business will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of economic dependence on a relationship. Where the reporting entity is economically dependent on another entity, the reporting entity is encouraged to disclose the existence of that dependency.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass entities subject to joint control.

### **Remuneration of Key Management Personnel**

16. Remuneration of key management personnel includes remuneration derived by individuals from the reporting entity for services provided to the reporting entity in their capacity as members of the governing body or employees. Benefits derived directly or indirectly from the entity for services in any capacity other than as an employee or a member of the governing body do not satisfy the definition of remuneration of key management personnel in this Standard. However, paragraph 34 requires disclosures to be made about certain of these other benefits. Remuneration of key management personnel excludes any consideration provided solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel.

### **Voting Power**

17. The definition of related party will include any individuals owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over the entity. The holding of an interest in the voting power of an entity can arise when a public sector entity has a corporate structure and a minister or government agency holds shares in the entity.

### **The Related Party Issue**

18. Related party relationships exist throughout the public sector, because:

- (a) Administrative units are subject to the overall direction of the executive government and, ultimately, the Parliament or similar body of elected or appointed officials, and operate together to achieve the policies of the government;
- (b) Government departments and agencies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and
- (c) Ministers or other elected or appointed members of the government and senior management group can exert significant influence over the operations of a department or agency.

19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes and enables users to better understand the financial statements of the reporting entity because:

- (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;

## **Attachment 3--Related Party Issue Paper**

- (b) Related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies where goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments and individual public sector entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.

20. Disclosure of certain types of related party transactions that occur and the terms and conditions on which they were conducted allows users to assess the impact of those transactions on the financial position and performance of an entity and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.

### **Remuneration of Key Management Personnel**

21. Key management personnel hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. Their salaries are often established by statute or an independent tribunal or other body independent of the reporting entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about the remuneration of key management personnel and close members of the family of key management personnel during the reporting period, loans made to them and the consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee. The disclosures required by this Standard will ensure that appropriate minimum levels of transparency are applied to the remuneration of key management personnel and close members of the family of key management personnel.

### **Materiality**

22. IPSAS 1, “Presentation of Financial Statements” requires the separate disclosure of material items. The materiality of an item is determined with reference to the nature or size of that item. When assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party and the nature of the transaction may mean that a transaction is material regardless of its size.

### **Disclosure**

23. In many countries, the laws, and other authoritative financial reporting rules, require financial statements of private sector entities and government business enterprises to disclose information about certain categories of related parties and related party transactions. In particular, attention is focused on the entity’s transactions with its directors or members of its governing body and with its senior management group, especially their remuneration and borrowings. This is because of the fiduciary responsibilities of directors, members of the governing body and senior management group, and because they have extensive powers over the deployment of entity resources. In some jurisdictions, similar requirements are included in the statutes and regulations applicable to public sector entities.

24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties. IPSAS 6, “Consolidated and Separate Financial Statements” and IPSAS 7 require disclosure of a list of significant controlled entities and associates. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” requires disclosure of extraordinary items and items of revenue and expense within surplus or deficit from ordinary activities that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period.

**Disclosure of Control**

**25. Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.**

26. In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity and the name of the ultimate controlling entity, if any.

**Disclosure of Related Party Transactions**

**27. In respect of transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity should disclose:**

- (a) The nature of the related party relationships;**
- (b) The types of transactions that have occurred; and**
- (c) The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.**

28. The following are examples of situations where related party transactions may lead to disclosures by a reporting entity:

- (a) Rendering or receiving of services;
- (b) Purchases or transfers/sales of goods (finished or unfinished);
- (c) Purchases or transfers/sales of property and other assets;
- (d) Agency arrangements;
- (e) Leasing arrangements;
- (f) Transfer of research and development;
- (g) License agreements;
- (h) Finance (including loans, capital contributions, grants whether in cash or in kind and other financial support including cost sharing arrangements); and
- (i) Guarantees and collaterals.

29. Public sector entities transact extensively with each other on a daily basis. These transactions may occur at cost, less than cost or free-of-charge. For example, a government department of administrative services may provide office accommodation free of charge to other departments, or a public sector entity may act as a purchasing agent for other public sector entities. In some models of government there may be the capacity for recovery of more than the full cost of service delivery. Departments are related parties because they are subject to common control and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these entities is not required where the transactions are consistent with normal operating relationships between the entities, and are undertaken on terms and conditions that are normal for such transactions in these circumstances. The exclusion of these related party transactions from the disclosure requirements of paragraph 27 reflects that public sector entities operate together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities in different jurisdictions. This Standard requires disclosures of related party transactions only when those transactions occur other than in accordance with the operating parameters established in that jurisdiction.

30. The information about related party transactions that would need to be disclosed to meet the objectives of general purpose financial reporting would normally include:

- (a) A description of the nature of the relationship with related parties involved in these transactions. For example, whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;

## **Attachment 3--Related Party Issue Paper**

(b) A description of the related party transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/or balances;

(c) A summary of the broad terms and conditions of transactions with related parties, including disclosure of how these terms and conditions differ from those normally associated with similar transactions with unrelated parties; and

(d) Amounts or appropriate proportions of outstanding items.

31. Paragraph 34 of this Standard requires additional disclosures to be made about certain transactions between an entity and key management personnel and/or the close members of the family of key management personnel.

**32. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable information for decision making and accountability purposes.**

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with IPSAS 6. Transactions with associated entities accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.

### **Disclosure — Key Management Personnel**

34. **An entity shall disclose:**

(a) **The aggregate remuneration of key management personnel and the number of individuals, determined on a full time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;**

(b) **The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period showing separately the aggregate amounts provided to:**

(i) **Key management personnel; and**

(ii) **Close members of the family of key management personnel; and**

(c) **In respect of loans which are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:**

(i) **The amount of loans advanced during the period and terms and conditions thereof;**

(ii) **The amount of loans repaid during the period;**

(iii) **The amount of the closing balance of all loans and receivables; and**

(iv) **Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such.**

35. Paragraph 27 of this Standard requires the disclosure of related party transactions which have occurred other than on an arm's length basis consistent with the operating conditions established for the entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraph 34, whether or not they have occurred on an arm's length basis consistent with the operating conditions that apply in respect of the entity.

36. Persons who are key management personnel may be employed on a full or part time basis. The number of individuals disclosed as receiving remuneration in accordance with paragraph 34(a) needs to be estimated on a full time equivalent basis. Entities will make separate disclosures about the major classes of key management personnel that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups will be made separately. Where an individual is a member of both the governing body and the senior management group, that individual will be included in only one of those groups for the purposes of this Standard. The

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categories of key management personnel identified in the definition of key management personnel provide a guide to identifying classes of key management personnel.

37. Remuneration of key management personnel can include a variety of direct and indirect benefits. Where the cost of these benefits is determinable, that cost will be included in the aggregate remuneration is closed. Where the cost of these benefits is not determinable, a best estimate of the cost to the reporting entity or entities will be made and included in the aggregate remuneration disclosed.

38. Requirements on the measurement of employee benefits are found in IPSAS 25, "Employee Benefits." When non-monetary remuneration that is able to be reliably measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

39. This Standard requires the disclosure of certain information about the terms and conditions of loans made to key management personnel and close members of the family of key management personnel, where these loans:

- (a) Are not widely available to persons outside the key management group; and
- (b) May be widely available outside the key management group but whose availability is not widely known to members of the public.

The disclosure of this information is required for accountability purposes. The exercise of judgment may be necessary in determining which loans should be disclosed to satisfy the requirements of this Standard. That judgment should be exercised after consideration of the relevant facts and in a manner consistent with the achievement of the objectives of financial reporting.

40. Paragraph 34(a) of this Standard requires disclosure of the aggregate remuneration of key management personnel. Key management personnel include directors or members of the governing body and members of the senior management group of the entity. Directors or members of the governing body of the entity may also receive remuneration or compensation from the entity for services provided in a capacity other than as director or member of the governing body of the entity or as an employee of the entity. Paragraph 34(b)(i) of this Standard requires the disclosure of the total amount of this other remuneration or compensation.

41. Close members of the family of key management personnel may influence, or be influenced by, key management personnel in their transactions with the reporting entity. Paragraph 34(b)(ii) of this Standard requires the disclosure of the total remuneration and compensation provided during the period to close members of the family of key management personnel.

## **GASB**

### **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING Scope and Applicability of This Statement**

2. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. This Statement applies to all state and local governments.

3. This Statement amends paragraph 26 of the National Council on Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*.

### **Related Party Transactions**

4. State and local governments are required to disclose certain related party transactions. If the substance of a particular transaction is significantly different

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from its form because of the involvement of related parties, financial statements should recognize the substance of the transaction rather than merely its legal form.

5. Examples of transactions with related parties that have features that may indicate that governments should consider whether a *form-over-substance* condition exists include:

- a. Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction
- b. Selling real estate at a price that differs significantly from its appraised value
- c. Exchanging property for similar property in a nonmonetary transaction
- d. Making loans with no scheduled terms for when or how the loans will be repaid.

6. Determining the substance of a related party transaction may pose challenges not present in assessing transactions between unrelated parties. For example, a related party relationship may result in transactions that would not take place between unrelated parties or would be subject to different terms and conditions. In such cases, the substance of the related party transaction may differ from its legal form due to the related party relationship.

7. It may not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or what the terms and conditions would have been. Therefore, it may be difficult to determine whether a transaction was consummated on terms comparable to those that would be present in arm's-length transactions. Furthermore, governments frequently enter into transactions and engage in activities that are driven by societal needs and concern for the "public good." Therefore, it may not be appropriate to compare some governmental programs and arrangements to what might have occurred in an arm's-length transaction in the private sector or with unrelated parties.

### **FASB FAS 57 Summary**

This Statement establishes requirements for related party disclosures. The requirements of this Statement are generally consistent with those in Statement on Auditing Standards No. 6, *Related Party Transactions*, issued by the Auditing Standards Executive Committee of the American Institute of Certified Public Accountants.

### **INTRODUCTION**

1. The FASB has been asked to provide guidance on disclosures of transactions between **related parties**. Examples of related party transactions include transactions between (a) a parent company and its subsidiaries; (b) subsidiaries of a common parent; (c) an enterprise and trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of the enterprise's **management**; (d) an enterprise and its **principal owners, management, or members of their immediate families**; and (e) **affiliates**. Transactions between related parties commonly occur in the normal course of business. Some examples of common types of transactions with related parties are: sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services;

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use of property and equipment by lease or otherwise; borrowings and lendings; guarantees; maintenance of bank balances as compensating balances for the benefit of another; intercompany billings based on allocations of common costs; and filings of consolidated tax returns. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, an enterprise may receive services from a related party without charge and not record receipt of the services.

### **STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING**

#### **Disclosures**

2. Financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include:

- a. The nature of the relationship(s) involved
- b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements
- c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
- d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement
- e. The information required by paragraph 49 of FASB Statement No. 109, *Accounting for Income Taxes*.

3. Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

4. If the reporting enterprise and one or more other enterprises are under common ownership or management **control** and the existence of that control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprises were autonomous, the nature of the control relationship shall be disclosed even though there are no transactions between the enterprises.

#### **Appendix B: GLOSSARY**

24. For purposes of this Statement, certain terms are defined as follows:

- a. **Affiliate.** A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise.
- b. **Control.** The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise.

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c. **Immediate family.** Family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

d. **Management.** Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

e. **Principal owners.** Owners of record or known beneficial owners of more than 10 percent of the voting interests of the enterprise.

f. **Related parties.** Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

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**Federal Entity Task Force  
Meeting Summary  
November 17, 2010**

Participants Attending

Lynda Downing, GAO  
Sandra VanBooven, NRO  
Lt. Col. Brady, DoD  
Ann Davis, Treasury  
Gary Ward, Treasury  
Wendy Calvin, Department of Transportation  
Bill DeSarno, Inspector General of NCUA  
Tom Daxon, State of Oklahoma  
Wendy Payne, FASAB

Via Teleconference

Abe Dymond, FASAB Counsel  
Joel Grover, Treasury OIG  
Dan Kovlak, KPMG

General Fund Presentation by Treasury

The federal entity project will move on to component entity reporting once the government-wide reporting is finalized, and one issue that needs to be resolved is the general fund issue. Treasury Representatives will be giving a primer of the issue and the goal would be to have a few members of the task force volunteer for a smaller sub-group to work on this issue.

Ann Davis (Treasury) and Gary Ward (Treasury FMS) led the presentation on the general fund, which was the same presentation given to the Undersecretary of Treasury (see attached slides). Ms. Davis explained that FMS prepares the government-wide financial statement (CFR) and directed the participants to slide 2 that explains the number of entities included in the CFR and ones that FMS prepares versus ones that is receives a trial balance for.

Ms. Davis explained the government-wide has received a disclaimer for the past 13 years for 3 main reasons—DOD, intra-governmental differences (transactions between agencies) and the process used to consolidate the information. Ms. Davis explained the latter two would be the focus of the discussions related to the general fund.

Ms. Davis explained there are two streams of data—audited data coming in from the agencies and the information in the FMS financial system. She explained that Cash is audited and has a clean opinion. However, the appropriations and cash flows that arise from the granting of budget authority and movement are not

audited because it is not included in the agency statements. Therefore, a transaction an agency would have with the General Fund is causing an out of balance situation which turns out to be a major contributor to the 'plug' which most have heard about in the government-wide reconciliation because assets DO NOT EQUAL liabilities and net position (see slides 5 - 7). The plug or absolute value of intra-governmental differences in 2009 was \$102B.

Ms. Davis explained the reason the general fund is an issue in this area is detailed on slide 8, it is the largest component of the intra-governmental difference area. She explained that any transactions with the General Fund are automatic reconciliation issues because there is nothing on the other side for it to bump against and eliminate; therefore the entire amount would go to the plug.

Ms. Davis explained Treasury is trying to address this by creating the General Fund as a separate entity, things that would be included are: Cash from the Treasury general account, Public Debt, and Budget Authority (see slide 9).

Ms. Davis explained that changes in Cash are not being accounted for in the Treasury financial statements. The General Fund entity would be included in the CFR for consolidation just like other entities. She explained this would hopefully solve certain elimination issues that have been identified. Its intra-governmental amounts would be reported for reconciliation quarterly. The accounting and reporting for the General Fund would be done at FMS. The impact on the CFR would be that it would help resolve disclaimer issues. Ms. Davis explained they have discussed this with GAO and it appears they have their support. Ms. Davis explained it would impact Treasury's stand-alone financial statement because the Debt and Cash would come off (as well as the Due To and Due From accounts that counter balance). Ms. Davis explained these are large balances (approximately \$12 trillion) so it would be a material change in the Treasury component reporting entity. However, it would greatly simplify the Treasury standalone financial statement. The timetable to accomplish this is soon.

Mr. Daxon asked if Treasury solicited any outside help on how to tackle this endeavor. Mr. Ward explained they had met with representatives from Australia who accomplished a similar type issue, although on a much smaller scale. He noted that KPMG Australia was assisting them and they've also had discussions with others so they are trying to learn off others who have done similar things.

Mr. Ward explained Cash and Debt have always been audited statements so the new territory is the budget authority and ensuring this balances to zero once the transactions go through.

Ms. Payne explained there obviously is only one General Fund in the federal government. There will be standard or conceptual questions to address--such as can there be a standalone financial statement for the General Fund and how does this affect Treasury's standalone financial statements. She requested

volunteers to work on a sub-group on this issue separately. Mr. Kovlak, Lt. Col. Brady, and Lynda Downing volunteered. Mr. Ward and Ms. Davis would be involved as well.

Mr. Kovlak asked if the process or the decision of the General Fund to be a reporting entity required approval from OMB or FASAB. Ms. Payne explained the standard would include a section on component reporting entities. The specificity with which it addresses the General Fund depends on what the task force recommends for the standard to include as the standard. Ultimately, the standard is issued by FASAB after the review process. However, OMB is responsible for determining which entities are required to report so they may also address the issue with the Treasury component entity.

Ms. Downing stated one could view the General Fund as already being treated as a separate entity as the Treasury financial statements present a Due To/From the General Fund; its not like they carry the full burden of the general fund in their financial statements.

Mr. Kovlak asked when the timetable is and how 'soon' that can be defined. Mr. Ward explained the General Fund hopes to have a prototype set of financial statements for FY 2011; however, it can't be included in the CFR until it is removed from the Treasury stand alone statements as that would be double counting. Mr. Ward explained FY 2012 is the target for implementation for consolidation purposes. Ms. Davis explained there is a lot of pressure to get a clean opinion on the government-wide financial statements and addressing the General Fund issue is an important aspect of that.

Ms. Payne acknowledged one of the purposes of the project is to produce an entity standard so it will be level 1 GAAP. As the standard addresses component entity issues there may not be freedom to choose entities at will. While considering the component level, there are aspects where one might consider the General Fund is a standalone component entity. However, the proposed standard would be deficient if it didn't clarify certain notions related to the boundary of the component such as-- is there a single accountable official or from a public policy perspective does one take the view as long as everything is somewhere then the boundaries of the components are not critical, as long as you are clear what's in the audited financial statements. Ms. Payne explained there are a couple of paths, but when developing the standards for the component entities there may be ramifications. Ms. Davis explained one of the objectives is to ensure everything gets accounted for.

Mr. Kovlak asked if this would really address the government-wide disclaimer without DOD being resolved. Ms. Davis explained that DOD would also need to be resolved but it would at least be a step in the right direction and assist in resolving certain findings.

Revised Approach and Related Party Options (Broad and Narrow)

Staff explained based on Board member feedback, staff revisited the approach and no longer is taking a two step approach—as you may recall originally the plan was to (1) Define the boundaries of the government-wide reporting entity and (2) Determine the presentation of the entities within the boundaries. It appeared this approach led to additional steps and unnecessary language within the proposed standard. Therefore, staff revised this approach which led to a more concise proposal that focuses on what entities should be consolidated versus what is within the boundaries. In revising this approach, staff revised the document to simply use consolidation principles versus conclusive and indicative principles considering they both lead to consolidation.

Staff requested the task force's input on the revised approach which also includes related party. Ms. Downing asked if the Related Party was part of the revised approach. Ms. Payne confirmed that Related Party would be addressed in the proposed standard—both options include related party.

The task force agreed the revised approach was clearer and more concise in approach.

Staff explained there were two approaches for FASAB in addressing related parties in the exposure draft (ED) 1. Related Party –broad Related Party reporting and 2. Related Party- narrow Related Party reporting (most of the relationships would be consolidated or considered an exception to consolidation with alternate reporting disclosures).

Staff requested the task force's input and view's on the two approaches. Staff explained using the example of FarmerMac—in the Broad Related Party it would be presented as a Related Party whereas in the Narrow Related Party it would be considered federal entity but not consolidated with required note disclosures, perhaps summary statements. Ms. Payne explained it is very similar to component units in the state and local governments that are presented very visibly on the face of the statements, yet they are not consolidated. Staff didn't believe there should be display on the face of the financial statements.

A task force member asked where would the Federal Reserve fit under each—staff noted that potentially it would be a related party under the Broad Related Party and it would be a federal entity subject to disclosure with the Narrow Related Party approach. However, the final decision on this will be made after considering several proposals and only after the Board has decided on the final approach.

Ms. Downing explained the definitions have to be clear because an auditor looks and there is a question as to where do you draw the line—some may believe the American people are related parties. As a result, you will end up with simply

intra-governmental transactions and the big entities that you know are not consolidated—Federal Reserve, TARP, and GSEs. She believed if the definition for related party is too broad, the scope will be too broad as well.

Mr. Grover stated he preferred the narrow approach as it provides more information for the readers. Mr. Grover explained he thought the proposal did a nice job of explaining the different types of exceptions for the consolidated government-wide reporting entity.

Lt. Col. Brady stated the broad version is more principles based focus. He noted some concern with the narrow related party approach and proposed standard and it might take on rules based approach and be prescriptive. He stated the task force had agreed to take principles based approach and questioned if the proposed standard would be able to account for all types of entities that may come up. The advantage of a broad approach is that it would hopefully capture or address things that may come up.

The task force recognized that both versions had the Misleading to Exclude principle which helps with Lt. Col. Brady's concern, and because of this it should be retained.

Mr. Daxon explained he believes there will be more discussion about the federal government's involvement in our economy. He added that all of this needs to be reflected in the financial statements, as opposed to treating them as related party relationships and he favors consolidation.

Ms. Downing explained that if they are significant entities, then they are most likely disclosed. She added that she can't imagine significant entities not being displayed or captured elsewhere based on other standards, therefore she is unclear what we are trying to do different with the proposed standard. She is trying to better understand the difference in the relationship with the particular entity versus the transaction.

Ms. Payne noted one item of concern from the exceptions area was the implied guarantee the federal government made or stood up for to a certain extent—for Fannie and Freddie as an example—many believe there should have been some sort of budget provision for the value of this guarantee and the risk involved with that guarantee. Perhaps no one saw this coming, but most would agree we need to ensure there are at a minimum certain disclosures about the risks with these entities. Therefore, FarmerMac would be an example of where there would be disclosure related to the entity but no transactions per se on a day to day basis.

Ms. Downing explained she believes this is how related parties are defined right now—basically everyone you believe is in the federal government is consolidated and the ones that aren't are reported as a related party or list as not included in an appendix in the CFR. She added that anything you think sounds government

but isn't consolidated it goes to this status of related party more or less in practice—including thrift savings plan, federal reserve, and GSEs. Ms. Downing explained the definition for related party is crucial for the federal government and it is very different than the private sector.

Ms. Payne explained that it is a fairly major piece of the puzzle what ends up where. Staff attempts to avoid naming entities and where they go and this is the first time there has been the different buckets of exceptions—for example, the Quasi Governmental Financially Independent Entities as noted in the proposal with the narrow RP version.

Ms Payne requested feedback on the category. The example provided by staff was Amtrak as the federal government had purchased all the preferred stock of Amtrak. One task force member believed that Amtrak should be consolidated and that it could be compared to Enron (though it differs in many different ways as well). Certain task force members also noted that if the President appoints and the senate confirms the Board of directors of the Amtrak, or if the federal government controls the funding it should be a federal entity. Ms. Calvin, DOT, explained that Amtrak evolved during the Reagan years to privatization. She explained there is not a market for the stock of the Amtrak and although it is preferred stock, there are no dividends paid on it, or preferential voting rights. Ms. Calvin explained the relationship with Amtrak is disclosed as a related party in DOT's financial statements and this issue has been cleared with DOT's counsel. She added that one could roll Amtrak into DOT's financial statements (or perhaps the consolidated government-wide financial statement) but that could be misleading.

Ms. Payne noted these types of entities have been identified because they raise a potential risk (possible borrowing etc.) to the federal government so there should be some level of accountability to the taxpayer. Therefore the question becomes is the best way to accomplish meeting accountability through consolidation or through a component unit approach to assess them somewhat separately. Amtrak is a good example, but there would be others—for example InQTel where the federal government may set up an organization of individuals outside the government so it may be independent in operations.

Ms. Calvin noted that entities are unique and it will be difficult to get consistency across the board. Amtrak is unique, InQTel is unique, and just as other entities will have their other unique relationships with the federal government. Therefore, the standard needs to be written broadly to accommodate. Written broadly would mean it is written to ensure adequate disclosure for fair presentation. Ms. Payne noted the draft proposal for the narrow version is written with enough flexibility where consolidation would not be required, but it allows disclosures. Therefore, Amtrak would be disclosed in this instance (versus related party).

Mr. Dymond, FASAB Counsel asked if the narrow approach was a three tier reporting structure with the Quasi Governmental Financially Independent Entities being the middle tier for entities that meet the consolidation criteria but we really don't want to consolidate or these entities clearly are more than related party. He explained it appears more like a catch all for a category where we may not feel comfortable for the other two categories (consolidation and related parties). Mr. Dymond asked how it would be possible for an entity to operate independently that is either controlled or owned by another entity. Ms. Payne explained she understood that perspective but that wasn't really what staff had intended. Perhaps another example might be TVA because it does fully support itself.

Mr. Dymond explained there seems to be a conceptual range of ways in which financial reports could present economic and legal relationships between the reporting entity and other entities, as is reflected somewhat in the narrow related parties alternative ((1) consolidation, (2) "quasi governmental" entities, and (3) related parties). Mr. Dymond noted under the narrow related parties' alternative, it appears the proposed disclosures are substantially similar for those entities not being consolidated. Mr. Dymond explained another approach could be to present a scale of different kinds of related parties with different reporting for the different kinds that meet certain criteria. For example, one category could be a disclosure on the level of dependency by states (or any other entities) on the federal government, which discloses certain risks and assumptions about the federal government's relationships to the states (or other entities).

The task force discussed the notion of intent. Several task force members agreed it is very difficult to place much reliance on intent. For example, with Amtrak it was set up as a government corporation with the statutory intent or objective to make it a private corporation. However, it was never economically viable to complete that. Mr. Daxon explained he believed it would be an error if they rely too heavily on intent or if that is used as one of the main criteria in determining how to account for entities. Mr. Grover noted concern with the provision in SFFAC 2 for bail outs and the current economic stabilization activities and determining intent.

Ms. Payne explained the change in approach was made because the previous draft included the 'established by the federal government principle' but most Board members believed that pulled in too many entities for potential consolidation. The change in approach recognizes these as either exceptions or related party.

Mr. Daxon explained he believes the proper accounting should be included in the financial statements. If the federal government acquired an entity, that should be reflected, and so forth. Ms. Calvin explained that often things are not straight forward and Congress is constantly changing things.

Ms. Payne explained FASAB's goal is for the public to understand. She added that many would understand consolidating anything that one controls (as this is consistent with private sector standards) however this is something that others may struggle with. For example—using the GM example—is it better to consolidate GM which basically would result in GM disappearing or to present GM lending at fair value with disclosure of financial information that elaborates on how well GM is doing and what that means to the federal government. Which is better—which provides the best information to the reader.

Mr. Dymond noted that the state of California has stated publicly if the federal government had not helped, it would have gone under. Therefore it appears the state is clearly economically dependent upon the federal government, or perhaps a related party at a minimum. Mr. Grover noted that federal government is dependent upon taxpayers to pay their taxes so that could be considered a related party as well.

Ms. Calvin noted there are also grantee type relationships that might be considered in the related party relationship area. Ms. Downing reiterated the related party definition needed to be more specific as there are many areas before one can determine the disclosures.

Mr. Daxon suggested that temporary interventions be aggregated.

Bill DeSarno explained as long as they are accounted for and reported properly individually, he is less concerned that they are tied together nicely in the end. Mr. Ward echoed his comments.

Ms. Calvin agreed with the comments above and the fact that often the entities are different so it doesn't make always make sense to consolidate.

Ms. VanBooven supported the notions of disclosing the summary statements as some of these entities are 'cats and dog' so often it is necessary to review the financial information of the different entity to have a better understanding and know the risks and exposures.

Lt. Col. Brady agrees the exceptions and disclosures adequately capture what the users need and balances consolidation versus disclosure as well.

Mr. Daxon supports consolidation.

Ms. Downing explained, the more important piece of information was what was reported. Ms. Downing explained she doesn't support summary statements in disclosures. Ms. Payne noted it is flexible as it states "Summary Financial Statements or Information that would provide an understanding of the potential financial reporting impact..." and the summary statements would be along the lines of assets = liabilities plus owners equities. No one envisioned a complete

set of financial statements. Ms. Downing explained she still didn't support because as an auditor that would require a lot of audit work to substantiate as it may involve entities that report using a different source of generally accepted accounting principles (GAAP) and/or entities with different year-ends.

Ms. Payne explained these entities are operating under the federal government's stewardships and oversight, so while there may be a cost involved in auditing the numbers, the taxpayers have a vested interest in these entities and how they are performing.

Mr. Grover agreed with providing the information in the draft proposal but also understood the concerns noted by Ms. Downing; he noted the possibility of relying on the work of the other auditors. He added that providing more information is always helpful to the readers and transparent.

Mr. Kovlak agreed with Mr. Grover's comments. He added he liked the idea of providing a chart in the disclosures that would detail by entity the type of cash infusion (grant, equity, loan, etc.) by year. Mr. Kovlak explained the chart could also include the likelihood of getting that money back.

Ms. Payne confirmed the task force agreed the Misleading to Exclude Principle should remain in the draft proposal.

She also requested task force members to forward any detailed comments on the proposal.

**CONCLUSION:** A small sub-group will continue to work with Ms. Davis and Mr. Ward on the General Fund issue. The Task Force agreed the revised approach is a preferred and much more-straight forward approach. The Task Force preferred the Narrow Related Party Approach which in the Draft proposal provides relationships that would be considered an exception (though still a federal entity) to consolidation with alternate reporting disclosures. However there were some concerns noted with the definition for related party. Staff will work through other comments and concerns noted by task force members. Staff will also begin working on specific examples to be included in an Illustration Guide to accompany the standard, which may also clear up some ambiguity. The task force also agreed the Misleading to Exclude Principle should remain.

## Reporting a General Fund in the Financial Statements of the United States Government

## Background

- FMS produces the financial statements of the U.S. Government by compiling information submitted by agencies
  - 35 significant agencies produce audited financial statements (similar to the private sector)
    - Treasury is one of these agencies
  - The remaining 107 agencies submit trial balances
- 1<sup>st</sup> Financial Report of the U.S. Government (FR) covered FY 1997
  - Required by the CFO Act of 1990, as amended by the Government Management Reform Act of 1994
  - Audits of agency financial statements are also required by these and other legislation

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## FR audit results

- 13 years of disclaimed opinions by GAO
- Reasons for the disclaimer:
  1. DoD
  2. **Intragovernmental differences (transactions between agencies)**
  3. **Process used to consolidate the agencies' information and produce the FR**

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## Underlying reasons for the disclaimers

- 2 streams of data
  1. Data coming from the agencies - audited
  2. Data in FMS's main financial system
    - Cash – audited with clean opinion
    - All appropriations and cash flows that arise from the initial granting of budget authority and the movement of that authority to and from agencies – NOT audited

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## Underlying reasons cont'd

- Appropriations and all the cash flows of the General Fund are not included in any agency statement
- During the consolidation process, transactions with the General Fund are not consolidated or eliminated causing an out of balance situation. This is a major contributor to the plug.
- Result – assets ≠ liabilities + net position

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## The Plug

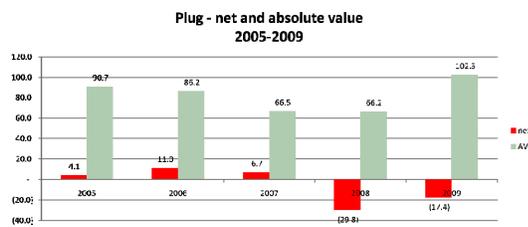
- Statement of Changes in Net Position

(dollars in billions)	FY 2009	FY 2008
Revenue	2,198	2,661
Net cost	(3,435)	(3,641)
Unmatched transactions and balances, net	(17)	(30)
Net operating cost	(1,254)	(1,009)

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## The plug – Absolute Value (AV) and net

dollars in billions



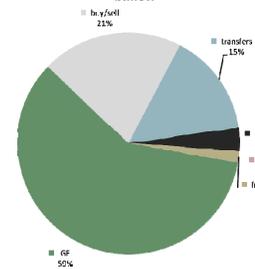
Excludes general fund transactions

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## How the General Fund is a problem in the intragovernmental disclaimer

- The General Fund is the largest component of the intragovernmental difference
- Reason – there is nothing for an agency's General Fund transaction to eliminate against

2009 intragov differences – 102.3 billion



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## What's included in the General Fund

- Cash in the Treasury General Accounts
- Debt
  - public
  - Intragovernmental
  - Interest expense on debt issued by BPD
- Budget Authority
  - Appropriations
  - Liability for fund balance with Treasury
  - Tax transfers
  - Trust fund transfers

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## How the General Fund is a problem in the consolidation disclaimer

- Without it, there is no control to ensure that all accounts are being included
  - Are there entities that are in the cash process that are not coming through the financial statement process?
- Without it, there is no control to synchronize cash movement with budget authority

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## Proposal - create a General Fund

- To include a full set of audited financial statements
- To be input for consolidation into the FR like any other agency
  - This way, other agencies' transactions with the General Fund will eliminate in consolidation
- Intragovernmental amounts will also be reported for reconciliation with the agencies quarterly
- General Fund accounting and reporting will be done at FMS

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## Impact on the FR

- We believe the creation of a separate General Fund entity that tracks budget authority as well as the financing and cash management that provides the funds for that authority is what is needed to resolve the following longstanding audit disclaimers:
  1. Intragovernmental differences (transactions between agencies)
  2. Process used to consolidate the agencies' information and produce the FR
- Recent discussions with GAO supports this approach

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## Impact on Treasury standalone statements

- The following will come off Treasury's balance sheet:
  - Due From General Fund - \$12 trillion
  - Due to General Fund - \$1 trillion
  - Cash – \$300 billion
  - Debt
    - \$8 trillion with the public
    - \$4 trillion intragovernmental
- This would greatly simplify Treasury's current financial statement presentation
- Working to obtain agreement with DO on this structure

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## Timeline

- FY 2010
  - Reach agreement with Department
  - Prepare pro forma financial statements
  - Jvs to mimic the authority piece
- FY 2011 – interim solution with auditor review
  - General Fund financial statements – first run
  - Solid cash numbers
  - Good debt & authority numbers
- FY 2012
  - full implementation with audit

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