Federal Accounting Standards Advisory Board

ASSIGNING ASSETS TO COMPONENT REPORTING ENTITIES

Technical Bulletin 2017-2

Exposure Draft

Written comments are requested by October 13, 2017

September 12, 2017

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"
- "Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov

Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov

September 12, 2017

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

Your comments on the exposure draft of a proposed Technical Bulletin, entitled *Assigning Assets to Component Reporting Entities,* are requested. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by October 13, 2017.

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

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

Sincerely,

Wendy M. Payne /s/

Wendy M. Payne

Executive Director

EXECUTIVE SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

Assets may be owned by one component of a larger reporting entity, such as a department, but used and/or funded by another component of the same entity. Individual standards addressing asset recognition and related reporting do not provide detailed guidance to resolve the question of which component reporting entity should report an asset. This is especially challenging for large, complex departments, such as the Department of Defense, that have numerous components and sub-components.

This Technical Bulletin (TB) is intended to provide guidance to address areas not directly covered in existing Statements and clarify existing standards. The TB would provide that assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. For example, an asset would be assigned to the component reporting entity holding legal title, funding the asset, using the asset in its operations, or on another rational and consistent basis. There should be a process in place to ensure all assets within a reporting entity are assigned to a component reporting entity. The TB would provide additional guidance regarding defining components and sub-components within larger reporting entities. It would explain that assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department).

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would facilitate reporting for large and complex organizations so that reporting is better aligned with their operations. Given the complex responsibilities and relationships among the components of large departments, this proposal would result in less costly financial reporting by aligning reporting with established funding and governance structures. This proposal would also reduce the barriers to and cost of adopting generally accepted accounting principles.

The provisions of this TB 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.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") staff encourages you to become familiar with all proposals in the Technical Bulletin before responding to the questions in this section. In addition to the questions below, staff also would welcome your comments on other aspects of the proposed Technical Bulletin. Because the proposals may be modified before a final Technical Bulletin is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

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

The questions in this section are available in a Microsoft Word file for your use at http://www.fasab.gov/documents-for-comment/. Your responses should be sent by email to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by October 13, 2017.

Q1. The proposed Technical Bulletin (TB) provides that assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. For example, an asset may be assigned to a component reporting entity holding legal title, funding the asset, using the asset in its operations, or another rational and consistent basis. However, assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department).

Do you agree or disagree? Please provide the rationale for your answer.

Q2. The proposed TB requires reporting entities to disclose the policies used to assign significant assets.

Do you agree or disagree? Please provide the rationale for your answer.

Q3. Staff plans to develop guidance regarding assignment of liabilities to components within a larger reporting entity. Thus far, the specific types of liabilities identified where it may be helpful to provide additional guidance are liabilities related to assets such as clean-up costs and possibly all government related events.

Should such guidance be limited to liabilities related to assets such as clean-up costs or also address all government-related events? Are there other types of liabilities for which guidance would be helpful? Please provide the rationale for your answer.

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. **What reporting entities are affected by this Technical Bulletin?**

2. This guidance applies to all reporting entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

3. **What accounting practices are addressed in this Technical Bulletin?**

4. This Technical Bulletin (TB) provides guidance to address areas not directly covered in existing Statements and clarifies asset recognition standards and related reporting. This TB also resolves the question of which component reporting entity should report an asset as well as related amounts such as deferred maintenance and repair.

5. **Are there certain assets that are excluded from this guidance?**

6. Yes, the Fund Balance with Treasury is excluded from this guidance. In addition, any assets that are not assets of the reporting entity cannot be assigned by the reporting entity to its component reporting entities. Assets of the reporting entity include those assets assigned to the reporting entity by the larger reporting entity of which they are a component.

7. **How should assets be assigned to component reporting entities?**

8. Existing standards and guidance addressing asset recognition and related reporting do not provide detailed guidance to resolve the question of which component reporting entity should report an asset as well as related amounts such as deferred maintenance and repair.

9. Assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. For example, an asset may be assigned to the component reporting entity holding legal title, funding the asset, using the asset in its operations, or on another rational and consistent basis. Different bases may be used for assigning different assets. A policy for assigning assets to component reporting entities should be established, documented and followed consistently. There should be a process in place to ensure all assets within a reporting entity are assigned to a component reporting entity.

10. **Is there additional guidance as to what constitutes a reporting entity, a component reporting entity, and a sub-component reporting entity?**

11. Yes, SFFAS 47, *Reporting Entity,* provides the framework for determining what organizations (for example, component reporting entities or sub-components) should be

included in the reporting entity's GPFFRs for financial accountability purposes. SFFAS 47 also provides that "component reporting entity" is used broadly to refer to a reporting entity within a *larger reporting entity*.[1] Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities also include *sub-components* (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

12. Assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department).

DISCLOSURE REQUIREMENTS

13. Reporting entities should describe the policies used to assign significant assets.

EFFECTIVE DATE

14. The requirements of this Technical Bulletin (TB) are effective upon issuance.

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

[1] The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

APPENDIX A: BASIS FOR CONCLUSIONS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, "Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance." The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section—not the material in this appendix—should govern the accounting for specific transactions, events or conditions.

This guidance may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this guidance. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

Department of Defense Implementation Guidance Request Project

A1. Since 2014, the Department of Defense (DoD) has requested the FASAB's consideration of several financial reporting areas of concern. While DoD continues its efforts to comply with the Chief Financial Officers Act of 1990 (as amended), it has noted certain challenges. The Board agreed to undertake this project to address an issue that was not addressed within the framework of existing accounting standards.

A2. Assets may be owned by one component of a large department but used and/or funded by another component. Individual Statements addressing asset recognition and related reporting do not provide detailed guidance to resolve the question of which component reporting entity should report an asset as well as related amounts such as deferred maintenance and repair.

A3. This is especially challenging for large, complex departments such as DoD that have numerous component reporting entities and sub-components. Many specialized components provide services to other components of DoD. There are many complex relationships among the components and sub-components of DoD. In addition, law may prohibit one component from owning assets; instead, another component owns the assets and hosts the component using the assets. In such cases, there may or may not be a financial transaction related to use of the assets.

A4. For example, this situation presents itself when one service, such as the U.S. Navy, has possession and use of a helicopter that was purchased (owned) by the U.S. Air Force. In using the helicopter, the Navy alters the state of the equipment by making major improvements that extend the useful life and increase its capabilities. If the Air Force carries the base asset, is it appropriate for the Navy to carry the improvement? Alternatively, it may be more appropriate for the Air Force to recognize the entire asset, including improvements funded by the Navy. There are numerous examples such as this regarding relationships among the components and sub-components of DoD, shared ownership of assets, improvements, and maintenance of such equipment.

A5. This technical guidance is intended to provide guidance to address areas not directly covered in existing Statements. This technical guidance clarifies existing standards by providing that assets may be assigned to component reporting entities within a larger component reporting entity on a rational and consistent basis. Reporting entities may decide which component reporting entity should report each asset. For example, an asset may be assigned to the component reporting entity holding legal title, funding the asset, using the asset in its operations, or on another rational and consistent basis.

A6. Reporting entities should establish and document a policy for assigning assets to component reporting entities and follow it consistently. Any change in such policy would be reported in accordance with SFFAS 21. There should be a process in place to ensure all assets within a reporting entity are assigned. In addition, assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department).

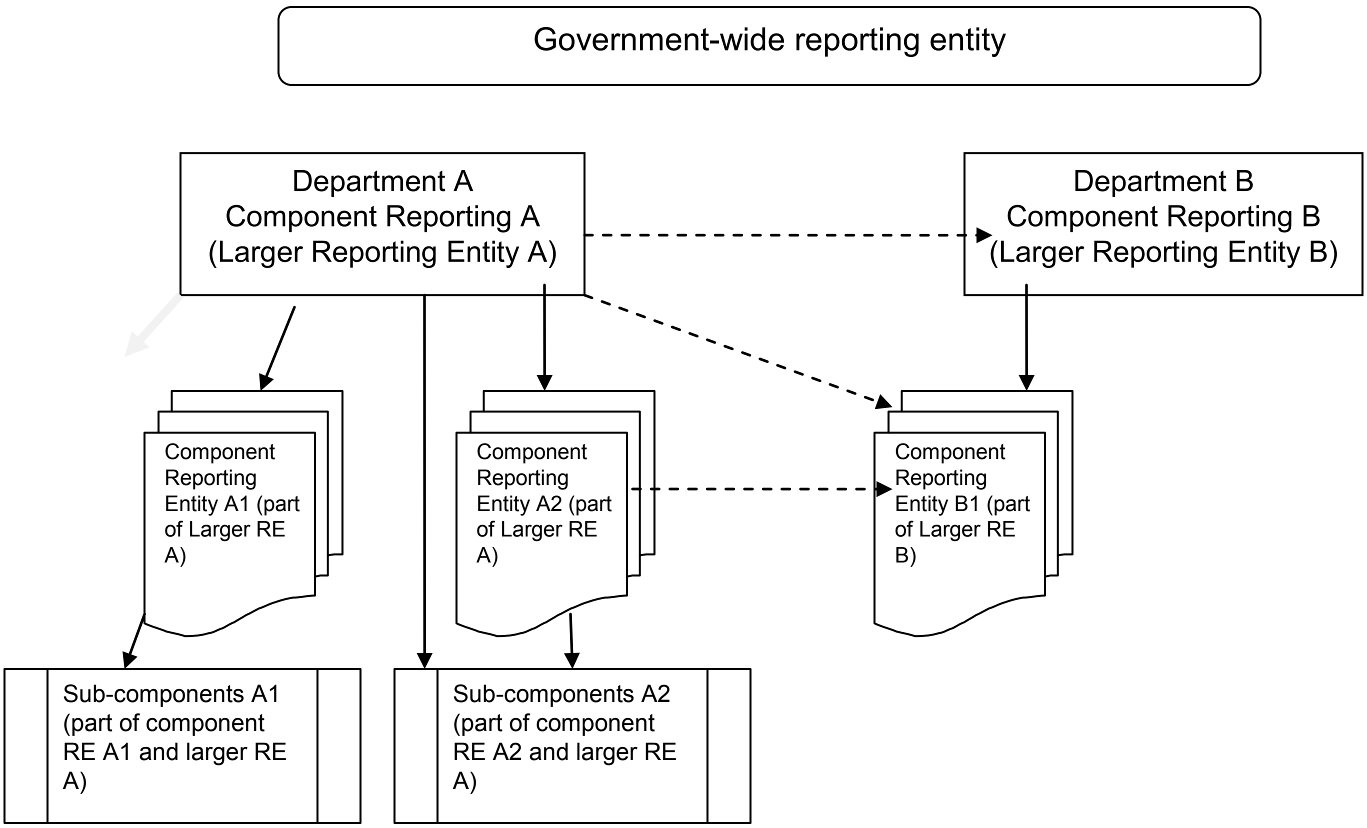
A7. This guidance is permissive and does not require any agency to change accounting practices. The flexibility may be useful for other federal agencies with complex structures or multiple sub-components that also undergo audit.

A8. Appendix B: Illustration offers a non-authoritative diagram that may be useful in understanding the application of this guidance.

APPENDIX B: ILLUSTRATION

This diagram illustrates how the provisions of this Technical Bulletin could be applied to organizations. It is presented for illustrative purposes only and is nonauthoritative. It does not:

1. represent actual organizations,
2. provide a thorough analysis of all the facts and circumstances that are needed to reach a conclusion in practice,
3. indicate a preferred method of analyzing facts and circumstances, and
4. substitute for the application of professional judgment to actual facts and circumstances.



Assets may only be assigned by a component reporting entity to its own sub-component reporting entities (such as bureaus, components, or responsibility segments within the same larger reporting entity or department). In the illustration, this would represent assignments connected with a solid line.

Assets may not be assigned to component (or sub-component) reporting entities that are not part of the same larger reporting entity. This would prohibit assigning assets across departments. These are depicted with a dashed line above.

APPENDIX C: ABBREVIATIONS

DoD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GPFFR	General Purpose Federal Financial Report
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

FASAB Members

D. Scott Showalter, Chair

Gila J. Bronner

Robert F. Dacey

George A. Scott

Michael H. Granof

Christina Ho

Patrick McNamee

Mark Reger

Graylin E. Smith

FASAB Staff

Wendy M. Payne, Executive Director

Melissa Batchelor, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov