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# Technical Bulletin 2017-2: Assigning Assets to Component Reporting Entities

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## Status

<b>Issued</b>	November 1, 2017
<b>Effective Date</b>	Effective upon issuance.
<b>Interpretations and Technical Releases</b>	None.
<b>Affects</b>	This TB clarifies SFFAS 6 regarding which component reporting entity should report an asset.
<b>Affected by</b>	None.

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## Summary

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) provides guidance to address areas not directly covered in existing Statements and clarifies existing standards. The 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 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. The TB provides 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).

This TB facilitates reporting for large and complex organizations so that reporting is better aligned with their operations and results in less costly financial reporting by permitting the reporting entity to align reporting with established funding and governance structures. This TB also reduces the barriers to and cost of adopting generally accepted accounting principles.

### Materiality

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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## Technical Guidance

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### Scope

1. **What reporting entities are affected by this Technical Bulletin?**
2. This guidance applies to all component reporting entities that present general purpose federal financial reports (GPFRRs) 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 regarding which component reporting entity should report an asset, the related depreciation, and deferred maintenance and repairs. This TB does not provide guidance regarding recognition of expenses related to use of an asset such as fuel for vehicles.
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.
7. **How should assets be assigned to component reporting entities?**
8. 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. 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).<sup>1</sup>

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<sup>1</sup>In the year of implementation, assets assigned to another component reporting entity should be treated as transfers of assets per SFFAS 7, *Accounting for Revenue and Other Financing Sources*.

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9. **Is there additional guidance as to what constitutes a reporting entity, a component reporting entity, and a sub-component reporting entity?**
10. 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*.<sup>2</sup> 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.

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## Disclosure Requirements

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

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## Effective Date

12. The requirements of this TB are effective upon issuance.

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

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<sup>2</sup>The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

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## 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.

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## 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 Bulletin (TB) 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. 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. In the year of implementation, assets assigned to another component reporting entity should be treated as transfers of assets per SFFAS 7, *Accounting for Revenue and Other Financing Sources*. 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 TB 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.
- A8. Appendix B: Illustration offers a non-authoritative diagram that may be useful in understanding the application of this guidance.

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## Summary of Outreach Efforts and Responses

- A9. The exposure draft (ED), *Assigning Assets to Component Entities*, was issued September 12, 2017, with comments requested by October 13, 2017.
- A10. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, *FASAB News*, *the Journal of Accountancy*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A11. 12 comment letters were received from preparers, auditors, professional associations, individuals and users of federal financial information. The Board considered responses to the exposure draft at its October 2017 meeting. Staff did not rely on the number in favor of or opposed to a given position. Staff considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.
- A12. The majority of respondents (8 out of 12) generally agreed with the proposed guidance. Specifically, respondents believed the TB provided guidance to address areas not directly covered in existing Statements and clarifies that assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. One respondent neither agreed nor disagreed with the proposal. Three respondents disagreed with the proposal. Certain respondents provided minor suggestions and editorial comments that were incorporated into the final guidance or addressed in the basis for conclusions.
- A13. FASAB staff considered carefully the potential that a major change in practice could result from this guidance. Based on initial research and positive feedback from 7 respondents, staff concluded that the guidance fills a void in the literature without causing a major change. Specifically, this guidance is permissive and does not require any agency to change accounting practices. It is meant to afford flexibility for federal agencies with complex structures.
- A14. Two respondents that disagreed stated the proposed guidance has the potential to cause a change in accounting practice and conflicts with Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. Although concepts statements guide the Board's development of accounting and reporting standards, the GAAP hierarchy provides that statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature.

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A15. SFFAC 5, paragraphs 10 through 16 discuss at a conceptual level associating elements with an entity. Based on these concepts, an asset would be recognized by the component reporting entity having a comprehensive relationship to it. If there is no component reporting entity having a comprehensive relationship, then the asset should be reported by the component reporting entity most responsible for managing it. Currently, individual standards addressing asset recognition and related reporting do not provide detailed guidance useful to resolving the question of what entity should report the asset as well as related amounts such as deferred maintenance and repair.

A16. Staff does not agree that this TB conflicts with SFFAC 5. This TB provides guidance that would be helpful in resolving assignment of asset questions that were not readily resolved through consideration of concepts level guidance. For complex departments with many specialized sub-component reporting entities, there would be many cases for which there is no component reporting entity having a comprehensive relationship to the asset. This TB makes explicit that reporting entities should establish a policy for assigning assets. While judgment may be exercised to determine which component reporting entity is most responsible for managing such assets, this TB provides that such judgments should be systematic and rational.

A17. Two respondents that disagreed requested clarification of the use of transfers as detailed in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. Staff added a footnote to clarify the difference between an asset assignment and asset transfer.

A18. The majority of respondents (9 out of 12) also agreed that reporting entities should describe the policies used to assign significant assets. One respondent neither agreed nor disagreed with the proposal. Two respondents that disagreed with the proposed disclosure requirements stating the proposed requirement would increase the amount of disclosures and related costs. Staff notes this guidance is permissive and does not require any agency to change accounting practices. It is meant to afford flexibility for federal agencies with complex structures; the disclosure requirements are for policies used to assign *significant* assets.

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## Board Review

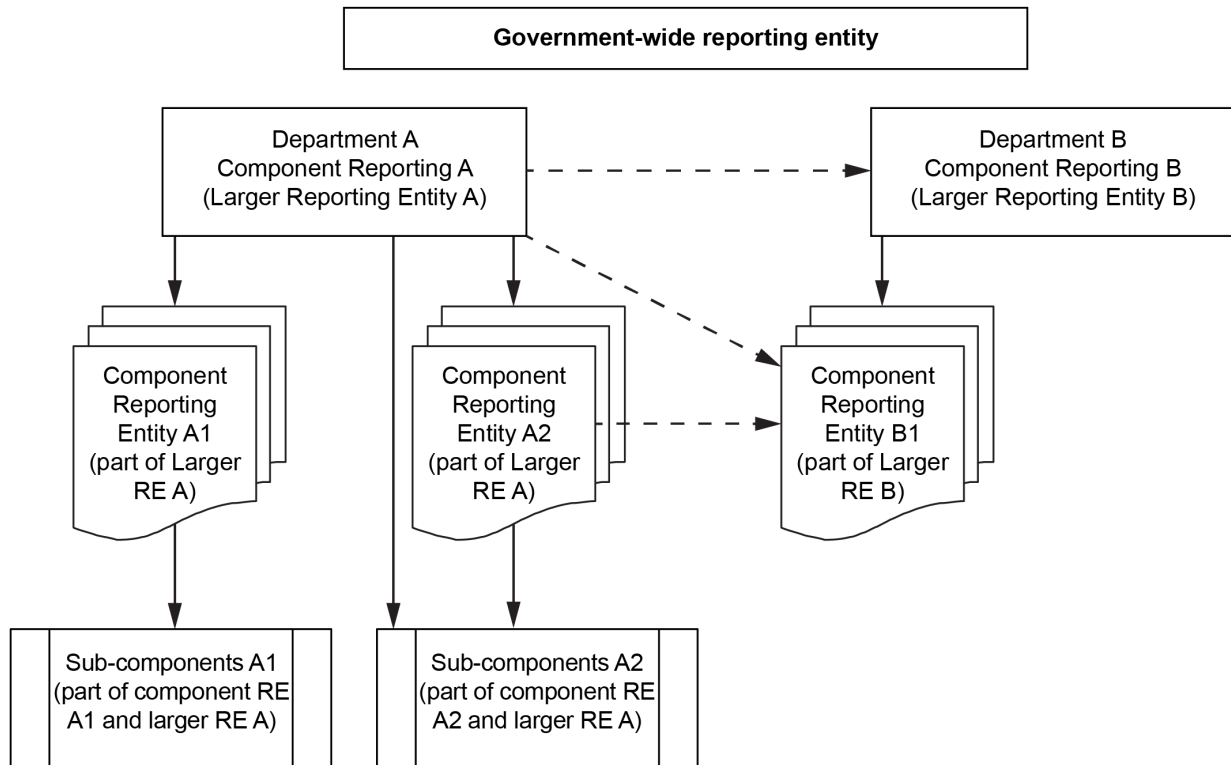
A19. The Board has reviewed this Technical Bulletin, and a majority of members do not object to its issuance.



## 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.



Source: GAO.

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Assets may only be assigned by a component reporting entity (Department) 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. In the illustration, these are depicted with a dashed line.