FASAB
THE FEDERAL ACCOUNTING
STANDARDS ADVISORY BOARD

Memorandum
Reporting Entity Reorganizations
June 5, 2025

To: Members of the Board
From: Ricky A. Perry, Jr., Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: Reporting entity reorganizations – non-authoritative staff paper proposal (**Topic C**)

OBJECTIVES

1. Consider, discuss, and decide upon staff's tentative recommendation to develop a non-authoritative staff paper on the topic.
2. Discuss tentative staff analysis and findings regarding potential coverable issues and the limitations of the paper.
3. Discuss next steps.

REQUEST FOR FEEDBACK BY JUNE 16TH

Prior to the Board's June meeting, please review the attached staff analysis (attachment 1) and working draft non-authoritative staff paper proposal under development (attachment 2). Please respond to the ensuing question(s) by June 16.

NEXT STEPS

Pending Board feedback, staff will continue research and consultations with a small working group of practitioners and further develop the draft non-authoritative staff paper.

ATTACHMENTS

1. Staff Analysis
2. Non-authoritative staff paper – working draft

REFERENCE MATERIALS

1. Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

2. Technical Bulletin (TB) 2003-1, *Certain Questions and Answers Related to the Homeland Security Act of 2002*

3. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, par. 68, as amended by SFFAC 10, *Omnibus Concepts Amendments 2024*

4. Requestion for Information and Comment: Reporting Entity Reorganizations

5. FASAB Rules of Procedure

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Staff Analysis

Reporting Entity Reorganizations

June 5, 2025
Attachment 1

INTRODUCTION

The staff analysis discusses staff's recommendation to develop a non-authoritative staff paper on reorganizations and abolishments and a recommended project approach. [1] [2]

An in-progress working draft of a proposed non-authoritative staff paper (attachment 2) is referenced throughout the below analysis. The staff analysis also discusses potential coverable issues and limitations of the paper.

Purpose

The initial objectives of this project are to:

a. evaluate reorganization and abolishment accounting principles and disclosures and related practice issues, and

b. consider whether current federal accounting and disclosure standards and guidance applicable to reorganizations and abolishments are sufficient to meet practitioner and user information needs.

If additional standards and/or guidance are determined to be needed, another objective would be to consider the development of standards and/or guidance addressing reorganizations and abolishments.

Background

At the April 2025 Board meeting, the Board discussed a project proposal outline on reporting entity reorganizations and abolishments. The Board agreed to add the proposed project to its technical agenda.

Members generally agreed that the issue area could have important implications for fiscal year 2025. Relatedly, a few members suggested that a short- and long-term approach to the project may be an appropriate means for addressing both more

[1] For the purpose of this discussion, staff is using the statutory terms set out in the Reorganization Act, 5 U.S.C. § 901-912. However, note that this statute does not control all reorganizations or abolitions of federal entities.

[2] The term "reorganizations" under 5 U.S.C. should not be confused with the term as under FASB Accounting Standards Codification (ASC)® 852, *Reorganizations*, which provides guidance on financial reporting by entities that are expected to reorganize as going concerns under 11 U.S.C., Chapter 11.

immediate needs in the interim with a long-term objective of addressing the issue area through a more comprehensive project. Members also suggested that staff leverage a small working group as a means for identifying and assessing emerging issues in the short term. A few members suggested that a non-authoritative staff paper may be an interim option for addressing potential short-term needs.

On May 12, staff released a request for information and comment (RFI) on reporting entity reorganization and abolishment accounting issues. Responses—due July 15—will help inform potential staff recommendations and alternatives for the Board to consider in this area. In the meantime, staff has performed research, formed a small working group of practitioners, and begun drafting a proposal to share with working group members in the coming weeks. Consultations with the working group have not yet commenced, as the formation of the roster was only recently completed.

Summary of Analysis and Recommendations

The ensuing staff analysis recommends continued development of a non-authoritative staff paper on the topic, pending further research, development, and consultations with working group members.

ANALYSIS

Project Approach

The Board provided comments at the April meeting on the project proposal outline to help inform further development of a project plan and approach. The following points were raised by members at the meeting regarding the project approach:

A. The issue area may have important implications for the current fiscal year.

B. A short- and long-term approach to the project might be appropriate.

C. A small working group as a means for identifying and assessing issues in the short term.

D. Development of a non-authoritative staff paper proposal for Board discussion.

Consistent with Board discussion in April, staff recommends adopting a two-phased, synergetic approach to the project, subject to RFI responses and further research to confirm that a staff paper would be helpful to practitioners in the interim.

In the near term, staff would continue researching existing requirements, consulting with the working group, and assessing responses to the RFI. RFI responses will be crucial to identifying accounting issues related to reorganization activities and events. The information will assist staff in determining whether or not a non-authoritative staff paper would address practice issues and serve as a worthwhile interim resource.

Staff believes that once more information becomes known and the non-authoritative staff paper is further developed, the Board will be able to assess whether or not to proceed with a non-authoritative staff paper at the upcoming August meeting.

Similar to the other staff papers, the paper would provide non-authoritative information summarizing relevant accounting and disclosure requirements. Consistent with the rules of procedure, the paper would not make overly subjective interpretations of or inferences regarding how to apply extant requirements, nor would it resolve gaps or provide authoritative clarifications, guidance, or disclosures. The paper would serve as an interim, limited-scope solution for fiscal year 2025.

In the long-term (2-3 years), the Board could further build on the short-term research and identify other issues and alternatives through due process, such as assessing gaps, clarifications, or disclosure requirements.

Staff recommendation:

Staff recommends employing a two-phased, synergetic approach to the reporting entity reorganizations and abolishments project, including:

> Phase 1: Continued development of a non-authoritative staff paper (attachment 2) on the topic, pending further research, RFI responses, and consultations with working group members.
>
> Phase 2: Further research and identification of issues and alternatives through due process, such as assessing gaps, clarifications, or disclosure requirements, and determining if a comprehensive standard or other guidance is needed.

Question #1 for the Board:

1. Do members generally agree with the proposed approach and recommendation? Do members have any feedback or suggestions?

Staff Paper (Attachment 2) – Preliminary Findings and Matters for Board Discussion

As noted above, the working draft staff paper is in progress. Responses to the RFI, forthcoming working group consultations, and the Board discussion will help inform further development of the paper.

Preliminary Findings

Staff performed an analysis of extant Board requirements and found the following:

1. The following Board guidance (items **1.A**-**1.C**) can be summarized in a non-authoritative staff paper on reporting entity reorganizations without making overly subjective interpretations or inferences regarding how to apply extant requirements to reporting entity reorganizations in fiscal year 2025:

A. SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 74, address transfers between entities (see par. 15 of attachment 2).

> *74. An intragovernmental transfer of cash or of another capitalized asset without reimbursement changes the resources available to both the receiving entity and the transferring entity. The receiving entity should recognize a transfer-in as an additional financing source in its result of operations for the period. Similarly, the transferring entity should recognize the transfer-out as a decrease in its result of operations. The value recorded should be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset should be recorded at its estimated fair value as of the date of transfer.*

B. SFFAS 15, *Management's Discussion and Analysis*, and SFFAS 64, *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*, address management's discussion and analysis.

Alternatives to consider

The staff paper could discuss how MD&A requirements may be applicable to reorganizations—particularly those that transfer material functions, assets, and liabilities.

Staff believes that the principle-based guidance in the above requirements are sufficiently clear, however. Discussion of those matters in a staff paper may introduce unnecessary complexity, given uncertainties surrounding the nature of future reorganizations; the nature of the staff paper as a non-authoritative, short-term / interim approach; and the early implementation option for SFFAS 64.

Alternatively, the Board may wish to include a brief question and answer that does not delve into the details or attempt to summarize the requirements of these MD&A pronouncements, but simply remind practitioners to duly consider these principles when developing their MD&As in the reporting period of the reorganization.

A third option would be to focus the staff paper on reorganization accounting and disclosure issues in the financial statements and notes.

C. Limited elements of TB 2003-1, *Certain Questions and Answers Related to the Homeland Security Act of 2002*, paragraphs 12-13 and 21-24, which cite Board requirements for transfers under SFFAS 7, paragraph 74. Language from these paragraphs can be leveraged due to their alignment with widely applicable GAAP (attachment 2, par. 15).

See item **2.A**, below regarding other paragraphs of TB 2003-1 that staff found cannot be summarized or discussed in the non-authoritative staff paper.

D. Receiving entities would need to consider the pertinent accounting and disclosure requirements of other FASAB pronouncements, based on the class(es) or sub-class of asset(s) or liability(ies) transferred and the requirements for those accounts or classes of transactions. RFI responses and consultations with working group members may help identify additional issues and/or requirements that could be addressed in the staff paper.

Staff believes that reporting entities would need to consider SFFAC 2, *Entity and Display*, concepts regarding note disclosures, as provided for under paragraph 68, as amended by SFFAC 10, *Omnibus Concepts Amendments 2024* (see attachment 2, par. 16). Although concepts are not authoritative, staff believes it may be helpful to refer practitioners to these fundamentals.[3]

2. The following Board guidance (items **2.A**-**2.B**) *cannot* be summarized in a non-authoritative staff paper on reorganizations without making overly subjective interpretations or inferences regarding how to apply or analogize extant requirements or other accounting literature.

A. Staff found that TB 2003-1 cannot be cited or summarized in an informational, non-authoritative staff paper based on the following reasons:

i. The guidance is expressly “limited to transfers of functions, assets, and liabilities resulting from the Homeland Security Act of 2002.”[4]

ii. The guidance related GAAP for non-governmental entities—FASB Financial Accounting Standards (FAS) 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*—to the federal reporting model.[5] FAS 144 cannot be logically extended to all federal entity reorganizations in a non-authoritative staff paper without due process.

Extension of FAS 144 to entities affected by the Homeland Security Act of 2002 resulted in (a) separate identification of the net cost of continuing operations and transferred operations on the face of the statement of net cost for all periods presented, and (b) receiving entities preparing statements of net costs based on operations subsequent to the transfer.[6] These elements of FAS 144 “[were] found [by staff] to be the best fit for this circumstance [the HS Act].” However, the Board elected not to incorporate FAS 144 requirements into the federal reporting model for “future changes at the federal level.” Rather, staff recommended that the Board consider it when an

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[3] The fundamentals are the underlying concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties. SFFACs are not GAAP. Instead, they 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 (see preamble to SFFACs and SFFAS 34, par. 8).

[4] See par. 4 of TB 2003-1.

[5] FAS 144 has also been superseded.

[6] See basis for conclusions (BFC) par. 36 of TB 2003-1.

opportunity to address new issues arises in the future.[7] The staff view regarding "best fit for this circumstance" also signaled that the requirements were based on specific circumstances.

As noted in item **1.C** above, only limited elements—such as key terminology (see attachment 2, par. 11-14) and language directly citing more general guidance on transfer accounting from SFFAS 7—can logically be cited or summarized in a non-authoritative staff paper.

B. Staff found that FASB and GASB guidance cannot be cited or summarized in an information, non-authoritative staff paper on the relevant accounting requirements for reporting entity reorganizations for procedural and technical reasons similar to item **2.A** above.

Staff recommends that these sources of information not be discussed in the paper for reasons discussed above. These items can be further studied as part of the longer-term research efforts.

3. Staff has identified issues that the Board could consider as part of its longer-term efforts under this project. Issues include, but are not limited to, the following:

A. Consideration and study of FASB and GASB guidance.

B. Matters discussed in the basis for conclusions of TB 2003-1, including:

i. separate presentation of amounts for continuing and transferred operations on the statements of custodial activity and changes in net position,[8] and

ii. standards tailored to the unique federal environment.[9]

C. Additional disclosure requirements, such as a description of the facts and circumstances leading to reorganizations and the related transfers, and changes in reporting entity classifications (to/from consolidation entity from/to disclosure entity, for example).

Staff will continue to research and identify other potential researchable questions and accounting issues as the project continues.

Question #2 for the Board:

2. Do members have any feedback or suggestions on the preliminary findings (items **1**-**3**) above?

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[7] See BFC par. 38 and 44 of TB 2003-1.

[8] See BFC par. 41-47 of TB 2003-1.

[9] See BFC par. 54 of TB 2003-1.

Attachment 2 – Matters for Board Discussion

Attachment 2 is a working draft that illustrates how a non-authoritative staff paper could be presented and organized. Responses to the RFI, forthcoming working group consultations, and Board feedback will help inform further development of the paper.

Items for tentative Board discussion and feedback include the following:

1. Organization. Staff has organized the working draft as follows:

   Part I: Purpose
   Part II: Contents
   Part III: Methodology
   Part IV: Key terms
   Part V: Questions and answers

   Staff is considering including a table at the end of part V to include authoritative references upon which the answers to the questions are based. This may facilitate practitioner research of any authoritative literature cited or discussed.

2. Key terms. Paragraphs 11-12 and 14 of part IV are based on TB 2003-1. Notwithstanding staff's reservations regarding summarizing the *additional requirements* in the TB, staff believes that use of these terms—which are not defined elsewhere in Board pronouncements—is unavoidable in the context of a paper on reorganizations. Given that the paper would be non-authoritative, staff does not believe it is hazardous to leverage these terms from the TB and finds it preferable to maintain alignment, given the similarities.

3. Questions and answers. Paragraphs 15-17 of Part V are in process. Part V illustrates how staff would approach the staff paper, using question-and-answer format with a focus on existing requirements (e.g., par. 15) and concepts to consider in the absence thereof (e.g., par. 16).

Questions #3-4 for the Board:

3. Do members have any feedback on the matters for Board discussion (items **1**-**3**) above?

4. Do members have any other feedback on attachment 2, such as additional reorganization accounting or disclosure issues or pronouncements for staff to further study and/or consult with the working group on?

Federal Reporting Entity Reorganizations and Abolishments:
A Non-authoritative Staff Paper -

I. Purpose

1. Federal agencies and their functions, from time to time, have been reorganized and abolished. Reorganizations refers to a transfer, consolidation, coordination, authorization, or abolition of one (or more) agency(ies) or a part of its (their) functions. Abolition, a type of reorganization, refers to the whole or part of an agency which does not have, upon the effective date of the reorganization, any functions.[1] [2]

2. The purpose of this non-authoritative staff paper is to clarify the requirements of existing generally accepted accounting principles (GAAP) for federal reporting entities and discuss certain other presentation and disclosure questions raised by federal entity practitioners that are not directly addressed by existing GAAP as it relates to reorganizations and abolishments.[3]

3. This staff paper does not change or modify current GAAP and is not intended to comprehensively address all accounting and reporting issues that may arise in the context of reorganizations and abolishments. It is also not intended to set accounting policies for the federal government. Such authorities are separately held and retained by the Office of Management and Budget (OMB), Department of the Treasury (Treasury), and the Government Accountability Office (GAO). Federal reporting entities should refer to current GAAP and consider entity-specific laws, regulations, facts, and circumstances when preparing general purpose federal financial statements and notes.

4. The views expressed in this non-authoritative staff paper are those of the Federal Accounting Standards Advisory Board (FASAB) staff. Official positions of the FASAB are reached only after extensive due process and deliberations.

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[1] For the purpose of this staff paper, staff is using the statutory terms set out in the Reorganization Act, 5 U.S.C. § 901-912. However, note that this statute does not control all reorganizations or abolitions of federal entities.

[2] The term “reorganizations” under 5 U.S.C. should not be confused with the term as under Financial Accounting Standards Board (FASB) Codification (ASC)® 852, *Reorganizations*, which provides guidance on financial reporting by non-federal entities that are expected to reorganize as going concerns under 11 U.S.C., Chapter 11.

[3] See 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*, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with GAAP (the GAAP hierarchy).

II. Contents

5. Part III of this paper discusses staff's methodology for preparing this paper, including the methodology for annotating its research and analysis of existing GAAP and the GAAP hierarchy.

6. Part IV presents key terminology.

7. Part V, which is presented in question-and-answer format, clarifies existing GAAP and discusses other presentation and disclosure questions related to reorganizations and abolishments (see also: par. 2-4 above).

8. Part V, table 1, presents staff's non-authoritative analysis of the level(s) of the GAAP hierarchy referenced in developing each answer. As noted in paragraph 3 above, federal reporting entities should refer to current GAAP and consider entity-specific laws, regulations, facts, and circumstances when preparing general purpose federal financial reports.

III. Methodology

9. In May 2025, staff released a Request for Information, encouraging practitioners to provide information to facilitate staff's identification and analysis of accounting issues related to recent, ongoing, or potential reporting entity reorganization activities. Staff also identified existing FASAB pronouncements applicable to reporting entity reorganization events and transactions in accordance with paragraphs 5-8 of SFFAS 34.

10. See Appendix I for additional discussion regarding staff's rationale on certain key decisions, including factors considered significant by staff in reaching certain conclusions regarding the applicability or non-applicability of certain pronouncements and other accounting literature.

IV. Key terms

11. **Legacy entity** – refers to an entity from which one or more function, asset, and/or liability is being transferred.

12. **Receiving entity** – refers to an entity to which one or more function, asset, and/or liability is transferred.

13. **Reorganization** – refers to a transfer, consolidation, coordination, authorization, or abolition of one (or more) agency(ies) or a part of its (their) functions, assets, and/or liabilities.

14. **Transferred entity** – refers to an entity preparing stand-alone financial statements consolidated with a legacy entity's financial statements prior to transfer and with a receiving entity's financial statements after transfer.

V. Questions and answers

Staff note: The below draft Q&A serves as an example for discussion / illustrative purposes at the June meeting. TB 2003-1, par. 12-14 and 21-24, which is limited in scope to the HS Act of 2002, uses similar language based on SFFAS 7.

15. **How should legacy entities and receiving entities account for reorganization transfers of assets and liabilities?**

    SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 74, addresses this question.

    Legacy entities should account for outward intragovernmental transfers of assets and liabilities as "transfers out" on the Statement of Changes in Net Position. The amount transferred is equivalent to the book value of all assets and liabilities transferred out. If the liabilities transferred out exceed the assets transferred out, the amount would increase the results of operations for the legacy entity in the reporting period of the transfer. The legacy entity will de-recognize assets and liabilities at the time of transfer.

Receiving entities should account for inward intragovernmental transfers of assets and liabilities as “transfers in” on the Statement of Changes in Net Position. The net effect of the assets and liabilities received will be recognized as a “transfer in” on the Statement of Changes in Net Position. If the liabilities transferred in exceed the assets transferred in, the amount would decrease the results of operations for the receiving entity in the reporting period of the transfer. The receiving entity will recognize assets and liabilities based on the legacy entities’ book values at the time of the transfer.

16. **How should legacy entities and receiving entities disclose reorganization transfers of assets and liabilities?**

Although SFFAS 7 does explicitly enumerate a disclosure requirement specific to intragovernmental transfers-in and transfers-out associated with reorganizations, such transfers may interact with disclosure requirements within SFFAS 7 and potentially other SFFAS.

Transfers of material functions, personnel, assets, and liabilities would, in turn, have material effects on the legacy and receiving entities’ respective account balances, net positions, net costs of operations, cumulative results of operations, and/or accounting policies, thereby resulting in effects to the financial statements notes disclosures.

Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, paragraph 68, also provides that note disclosures may explain or further describe information recognized in financial statements, such as information about the nature of an item. It further provides that note disclosures may provide context or background information regarding the reporting entity and its activities. They may supplement financial statements to provide information regarding the entity’s mission, programs, and significant relationships with other entities. Although SFFAC 2 is not authoritative, reporting entities are not precluded from considering these fundamentals in developing note disclosures to further explain transfers of functions, assets, and liabilities during the reporting period(s) presented.[4]

17. **Placeholder**

Pending

18. **Placeholder**

Pending

[4] The fundamentals are the underlying concepts of financial accounting concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties. SFFACs are not GAAP. Instead, they 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 (see Preamble to SFFACs and SFFAS 34, par. 8).