

## Financial Reporting Framework - Technical Fix

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### Summary:

- Currently, if a tribal government entity uses the commercial (FASB) financial reporting framework, a dual audit opinion is issued: 1) an adverse opinion on generally accepted accounting principles (GASB) financials and 2) a clean opinion on compliance with FASB standards.
- 1) Provide a technical fix to the definition of a government to accommodate the tribal government economic development revenue generation model. 2) Grant tribal governments membership on the Financial Accounting Foundation's board of trustees to ensure inclusion with both FASB and GASB regulations. 3) Convene a meeting with the White House, federal agencies, tribal governments, and accounting standard setters, with the common purpose of allowing tribal governments to receive a clean audit opinion on FASB financial statements.

### Background Information:

Tribal government entities generally issue financial statements using the governmental financial reporting framework (GASB). In some circumstances, tribal entities that meet the definition of a government (gaming enterprises, tribally-owned banks, tribal pension plans, 501(c)(3) non-profits, and other business enterprises) select the commercial (FASB) financial reporting framework. The American Institute of Certified Public Accountants (AICPA) and other standard setters have acknowledged that the use of FASB is more predominant in tribal governments due to the reliance on economic development to fund government functions. Considerations that lead a tribe to select the FASB framework might include: a tribe acquires an entity that uses the FASB framework; regulatory requirements of the Securities and Exchange Commission, Federal Deposit Insurance Corporation, Internal Revenue Service or other federal agency; stipulations in contractual arrangements; and/or laws or regulations of the tribe.

The AICPA has provided "non-authoritative" guidance that allows auditors to issue a dual audit opinion on FASB financial statements. The two opinions contain an adverse opinion for GASB financials that is stated in the beginning of the report and a second clean opinion on compliance with FASB standards that is stated at the end of the report. An adverse opinion generally means the financial statements are misrepresented, misstated, and do not reflect the financial performance and health. A dual audit opinion requires educating all users of financial statements on interpreting the results. Confusing opinions counteract the mission of accounting standard setters and consequently disrupts the economic health of Indian Country.

**Recommendation:**

The Governmental Accounting Standards Board must provide a technical fix to the definition of a government to accommodate the tribal government economic development revenue generation model. The definition change must allow the FASB financial reporting framework to be generally accepted accounting principles, which would allow auditors to provide “clean” audit opinions. Secondly, tribal governments must have representation on the GASB and FASB’s parent organization, the Financial Accounting Foundation’s trustee board. Lastly, NAFOA recommends a convening with the White House, other government agencies, accounting standard organizations, and tribal governments to work through the issue.

Given an expected increase in the reliance on economic activity to fund government services, the importance of this issue will increase over time.

**Financial Accounting Foundation Hierarchy:**

