
Technical Bulletin 2017-1: Intragovernmental Exchange Transactions

Status

Issued	November 1, 2017
Effective Date	Effective upon issuance.
Interpretations and Technical Releases	None.
Affects	This TB clarifies SFFAS 5 and SFFAS 7 regarding intragovernmental exchange transactions.
Affected by	None.

Summary

This Technical Bulletin (TB) clarifies existing standards regarding intragovernmental exchange transactions. Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, define exchange transactions and exchange revenue respectively. However, neither fully addresses the unique nature of intragovernmental transactions. This TB provides guidance to aid in determining whether intragovernmental arrangements are exchange transactions. Specifically, it addresses whether value has been sacrificed and received by the parties to a transaction. Generally, if both parties agree that value has been exchanged (that is, each asserts that value is received and sacrificed), identify the nature of the value received and sacrificed, and demonstrate exchange of something of value, then the transaction should be considered an exchange transaction. This is true even if there is a significant difference in the values exchanged or between the value received and the cost incurred to obtain the value.

This TB improves the reporting of revenue and cost information by ensuring that transactions are appropriately classified. It 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

Scope

1. **What reporting entities are affected by this Technical Bulletin (TB)?**
2. This guidance applies to all 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 TB?**
4. This TB guides identification of intragovernmental exchange transactions. This TB does not address recognition and measurement of exchange transactions.
5. **When one federal entity (the providing entity) arranges for a third-party to perform services for another federal entity (the receiving entity) (for example, outsourcing such as arranging for an office lease for another federal entity) and both the providing and the receiving entity sacrifice and receive value in the transaction, is the entire transaction an exchange transaction?**
6. Yes, if the transaction meets the definition of an exchange transaction then the entire transaction is an exchange transaction.¹ Therefore, the providing entity should record exchange revenue for the full amount the providing entity billed to the receiving entity;² the receiving entity should record expense and/or a capitalized asset consistent with GAAP for the full amount payable to the providing entity. This is true even if the providing entity does not fully recover its administrative costs or plays only a minor role in the transaction. For example, the service provided may be limited to coordinating funding, facilitating transactions, negotiating contracts, and/or providing other related arrangements.

¹As discussed in paragraph 10, if both parties agree that value has been exchanged (that is, each asserts that value is received and sacrificed), identify the nature of the value received and sacrificed, and demonstrate exchange of something of value, then the transaction should be considered an exchange transaction.

²The providing entity incurs the costs of providing the service such as paying contractors, employees, and other resources providers. The receiving entity then pays the providing entity.

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7. SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 33 defines exchange revenue as "inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return." The full amount billed to customers should be recognized as exchange revenue. Even when the service is limited, such as being an intermediary to third-parties, amounts received are appropriately classified as exchange revenue. The providing entity earns the full amount of the payment by ensuring that the receiving entity's criteria are met. Exchange transactions contrast with nonexchange transactions where no value is expected or received by one of the parties.
 8. Further, both the providing and receiving entity should report the full cost of the transaction. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as amended requires entities generally to recognize the full cost. Paragraph 108 adds "If an entity provides goods or services to another entity, regardless of whether full reimbursement is received, the providing entity should continue to recognize in its accounting records the full cost of those goods or services." Recognizing the full cost facilitates an assessment of the performance of both entities. For example, the full cost of outsourced services is relevant to assessing how well the providing entity performed its role regarding the outsourced services. For the receiving entity, the full cost is relevant to assessing the efforts undertaken during the reporting period.
 9. **Is it necessary to consider whether the overall value to each party in the arrangement is approximately equal or whether the value to each party is approximately equal to the cost in determining whether the transaction is an exchange transaction?**
 10. No, SFFAS 7 requires only that some value is received and sacrificed by both parties to qualify as an exchange transaction. Also, SFFAS 7 acknowledges that intragovernmental arrangements are between parties under common control; such arrangements are non-market transactions.³ For non-market transactions, the value received in return for the revenue given may not be equivalent. Generally, if both parties agree that value has been exchanged (that is, each asserts that value is received and sacrificed), identify the nature of the value received and sacrificed, and demonstrate exchange of something of value, then the transaction should be considered an exchange transaction. This is true even if there is a significant difference in the values exchanged or between the value received and the cost incurred to obtain the value. Further, whether or not the providing entity incurs net revenue or net cost as a result of the transaction does not affect the classification.

³SFFAS 7, par. 46(b).

11. SFFAS 7, paragraph 111 recognizes that exchange transactions may "occur between entities within the Government, sometimes as stipulated by law and in other cases by mutual agreement." Consequently, classification as an exchange transaction is not dependent on whether the transaction is stipulated by law, policy, or by mutual agreement of the parties.

12. What does "sacrifice value" mean?

13. Value may be sacrificed in many ways including by:

- a. making a payment
- b. providing something of value (such as an item of property)
- c. performing a service (such as consulting, advising or informing another party), or
- d. arranging a contract or agreement or coordinating funding on behalf of another party.⁴

14. In some cases, the value sacrificed may not be measurable. In addition, the act of sacrificing value may provide value to both parties. For example, providing a consulting service may result in knowledge of benefit to both parties to the transaction as well as to others. The inability to measure the value sacrificed and the fact that the good or service is of continuing value to the provider, and possibly to others, does not mean the transaction is not an exchange transaction. As an exchange transaction, recognition of cost (or capitalized asset) and revenue should be based on the applicable standards. That is, it is not necessary to establish the "value" exchanged in order to recognize cost and/or revenue.⁵

15. What types of value may be considered sacrificed and received for an intragovernmental transaction to be classified as an exchange transaction?

16. As noted earlier, intragovernmental transactions are between parties under common control; such arrangements are non-market transactions. If the parties agree that value has been exchanged, identify the nature of the value exchanged, and demonstrate that the exchange occurred then the transaction qualifies as an exchange transaction. Government operations are increasingly integrated; particularly where common goals require a

⁴SFFAS 4, par. 106-107.

⁵For example, SFFAS 4, par. 15 defines "cost" as "the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service."

coordinated effort. Each party to a transaction should assess whether the transaction provides value.⁶

17. The party's classification of the transaction is particularly important because exchange transactions affect the gross and net cost of each reporting entity. If a party improperly identifies the transaction as a non-exchange transaction, the amounts would be reported on the statement of changes in net position which would misstate net cost during the reporting period. To avoid misstating net cost, a reporting entity's assertion that value was sacrificed and received when combined with identification of the nature and receipt of that value should result in classification as an exchange transaction.
18. Parties considering whether they sacrificed and received value may consider value that is:
 - a. direct (such as goods or services made available to them through the actions of the other party);
 - b. indirect (such as goods or services made available to support their mission as a result of the actions of the other party);
 - c. tangible (such as property, plant, or equipment);
 - d. intangible (such as information systems, written materials, or information);
 - e. quantitative (such as a specific amount of a good or service); or
 - f. qualitative (such as guidance or advice that may not be measurable).
19. The benefits of a transaction may not be exclusively for the parties to the transaction. Notwithstanding this fact, the transaction should be classified as an exchange transaction as long as the providing and receiving entities agree that they sacrifice and receive value of an identified nature as a result of the transaction.
20. Further, reimbursements for certain goods and services may be made by some but not all entities benefitting from such goods and services. The failure of some to make reimbursements does not affect the transaction between the parties.

⁶Note that this TB should be applied in determining whether a transaction is exchange or non-exchange for purposes of applying GAAP. It does not determine treatment for budgetary purposes. The budgetary term "transfer" is broad and may include transactions appropriately classified as exchange transactions for GAAP purposes. Treatment of a transaction as a budgetary transfer does not preclude its classification as an exchange transaction under GAAP. Guidance regarding classification for budgetary purposes is provided by the Office of Management and Budget.

Effective Date

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

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

Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory 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 documents. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that affect this guidance. Within the text of the documents, 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

- A1. In 2014, the Department of Defense (DoD) requested the Federal Accounting Standards Advisory Board's (FASAB or "the Board") consideration of a project after identifying several financial reporting areas of concern and related audit challenges. The Board agreed to undertake a project to address these areas by providing practical guidance within the framework of existing accounting standards and, where necessary, by providing the appropriate guidance to address issues not clearly addressed within the framework of existing accounting standards.
- A2. This Technical Bulletin (TB) is proposed in response to a request for guidance related to certain intragovernmental transactions. The guidance addresses transactions among components that DoD performs throughout execution of its mission that cannot be addressed effectively without further guidance. Also, it is believed that this guidance may assist other federal entities in applying existing accounting standards to similar transactions.
- A3. This TB addresses how to identify intragovernmental exchange transactions. DoD raised these questions regarding receipts resulting from Economy Act⁷ orders. One question is whether to record exchange revenue for only the portion of goods/services provided to other

⁷The Economy Act (31 U.S.C. 1535) authorizes agencies to enter into agreements to obtain supplies or services from another agency.

agencies that the agency performs itself or for the total cost recovered from other agencies including the reimbursement of costs of goods/services outsourced to other Federal agencies or vendors. This guidance is not limited to Economy Act orders because GAAP applies based on the substance of a transaction rather than the form.

- A4. This TB does not address recognition and measurement of exchange transactions. Existing standards adequately address the timing of recognition as well as the amount to be recognized.

Exchange Transactions

- A5. SFFAS 5, *Accounting for Liabilities of the Federal Government*, paragraph 23 states that "an exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or of promises to provide resources." In the specific case DoD refers to, DoD is arranging for a lease on behalf of another entity. Administrative services provided by DoD are a small part of the overall service associated with the lease.
- A6. Nonetheless, the providing entity (DoD) receives value through the payments from the receiving entity and sacrifices value through incurring the cost to acquire the good or service from the third-party for the receiving entity. The receiving entity receives value through the good or service provided by the providing entity and sacrifices value through payments to the providing entity. The full amount of the transaction qualifies as an exchange transaction.
- A7. The providing entity should record the full amount billed to the receiving entity as exchange revenue and the receiving entity should record the total amount it is billed as an expense or capitalized asset consistent with GAAP. The transaction does not qualify as a transfer-in/out--a nonexchange transaction--because some value is identified by both parties as being sacrificed and received (or acquired). In contrast, per SFFAS 5, paragraph 24, "a nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return."
- A8. The specific case presented raises the question of whether the recovery of the cost of services the providing entity "outsources to other Federal agencies and/or commercial vendors" should be reported as a transfer-in rather than as exchange revenue. Presumably, if it was appropriate to classify the recovery of the cost as a transfer-in then the corresponding cost for the outsourced services would be classified as a transfer-out to ensure that all the outsourced amounts were excluded from the Statement of Net Cost. This issue is directly addressed in SFFAS 4, paragraphs 108-109. Specifically, paragraph 108 states "If an entity provides goods or services to another entity, regardless of whether full reimbursement is received, the providing entity should continue to recognize in its

accounting records the full cost of those goods or services. The full costs of the goods or services provided should also be reported to the receiving entity by the providing entity."

- A9. SFFAS 4 does not make a distinction between full cost paid for administrative services versus costs paid to other federal agencies or commercial vendors. Treating the recovery of third-party amounts as transfers-in and the associated costs as transfers-out would be contrary to the guidance in SFFAS 4 intended to reveal the full costs on both the providing and receiving entities' Statements of Net Cost.
- A10. SFFAS 7 does not require an assessment of the value given and received by each party in exchange transactions because the standards do not define exchanges as being of approximately equal value. In intragovernmental transactions, the providing entity may or may not provide a significant amount of value in relation to the contract. Even when the value of the administrative services is small in relation to the third-party services or the providing entity is not reimbursed or not fully reimbursed for its administrative services, the providing entity is to report the full cost of the transaction⁸ and recognize exchange revenue for any amounts billed. For example, the providing entity may simply place an order under an existing contract or prepare funding documents.
- A11. In fact, the parties to the transaction may not be permitted to establish fair value exchanges. When an entity provides goods and services that consist of arranging a contract, such as a lease agreement with a commercial vendor, the entity may be reimbursed for the contract cost as well as an administrative fee, for an amount less than these two cost components, or for an amount more than these two cost components. Nonetheless, the full reimbursement qualifies as exchange revenue. Therefore, the providing entity recognizes exchange revenue for the total amount billed. SFFAS 7 does not provide guidance regarding the value given or received. As noted above, intragovernmental transactions are between parties under common control; such arrangements are non-market transactions and, therefore, may present unique challenges regarding the sacrifice and receipt of value between entities under common control. This TB provides that the parties to the transaction should determine whether value was sacrificed and received, identify the nature of those values, and demonstrate the exchange occurred (see par. 16).
- A12. In addition, the TB discusses unique circumstances such as exchanges of value where other parties also benefit from the transaction. For example, FASAB is funded by its sponsors in a joint effort to provide accounting standards for use by all federal reporting entities. Clearly, each sponsor believes value is provided but it would provide little value to determine whether that value equals the amount of funding for the Board and how that value might be affected by the fact that all reporting entities--including entities not providing

⁸SFFAS 4, par. 108.

funding to the Board--receive the accounting standards. Notwithstanding the delivery of accounting standards to all federal agencies, each sponsor should recognize the funding provided as a cost consistent with this being an exchange transaction. Treatment of the funding as a transfer-out, as if this was a non-exchange transaction, would misstate the cost to each party.

Summary of Outreach Efforts and Responses

- A13. The exposure draft (ED), *Intragovernmental Exchange Transactions*, was issued September 5, 2017, with comments requested by September 29, 2017.
- A14. 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).
- A15. 16 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.
- A16. The majority of respondents generally agreed with the proposed guidance. Specifically, respondents believed the TB provided guidance to aid in determining whether intragovernmental arrangements were exchange transactions. One respondent neither agreed nor 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.
- A17. One respondent that disagreed stated the proposed guidance has the potential to cause a major change in accounting practice, conflicts with SFFAS 7 (Appendix B) and 4, and introduces new criteria for determining when accounting events occur. As a result, the respondent believes it would be challenging for agencies and auditors to know what transactions the technical guidance applies to versus other FASAB standards.
- A18. 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 12 respondent federal departments and agencies, staff concluded that the guidance fills a void in the literature without causing a major change.

A19. FASAB staff also considered whether the guidance conflicts with SFFAS 7, Appendix B. Appendix B provides guidance for the classification of transactions including intragovernmental transactions but the guidance does not adequately address the receipt and sacrifice of value. For example, par. 315 identifies "intragovernmental sales of goods and services by a fund other than a revolving fund" as instances when "the cost of providing goods or services is defrayed in whole or in part by selling the goods or services provided. Each party receives and sacrifices something of value. The proceeds are exchange revenue." The technical bulletin aids in determining when each party receives and sacrifices something of value. In doing so, it augments but does not conflict with SFFAS 7.

A20. Certain respondents requested that there be an explanation of how this proposed guidance would be affected by the exposure draft, *Amending Inter-entity Cost Provisions*⁹ if it is approved by the Board. The proposal would amend existing standards by limiting the reporting of inter-entity costs to business-type activities. However, personnel benefits and Treasury Judgment Fund settlements are required to be imputed by GAAP standards other than SFFAS 4, and those standards ensure they continue to be imputed by all reporting entities. Further, the modifications proposed in the exposure draft include the option for future recognition of other inter-entity costs if the Office of Management and Budget decides to do so. Staff believes it is most appropriate to state the receiving entity "should record the total amount it is billed as an expense or capitalized asset consistent with GAAP" as this would be accurate going forward.¹⁰

A21. Certain respondents requested clarity regarding if the receiving entity is directly billed¹¹ by the vendor. Staff notes that that paragraph 13 explains the ways value may be sacrificed [making a payment, providing something of value, performing a service, or arranging a contract or agreement or coordinating funding on behalf of another party] and paragraph 18 explains the type of value that should be considered [direct, indirect, tangible, intangible, quantitative, and qualitative]. If no value is sacrificed, such as for amounts directly billed to and paid by the receiving entity, then the transaction would not meet the definition of an exchange transaction.

⁹*Amending Inter-entity Cost Provisions* was released for comment on September 1, 2017 with comments requested November 30, 2017.

¹⁰Specifically, the phrase "consistent with GAAP" would apply to reporting entities required or not required to impute costs. It would also be relevant before and after *Amending Inter-entity Cost Provisions* is deliberated by the Board, and remain true if the proposal is approved or not. At this time staff cannot state if *Amending Inter-entity Cost Provisions* will be approved by the Board.

¹¹For example, the receiving entity's funds may be directly placed on a contract; therefore the providing entity does not bill the receiving entity.

Board Review

A22. The Board has reviewed this Technical Bulletin, and a majority of members do not object to its issuance.