Federal Accounting Standards Advisory Board

June 12, 2019

Memorandum

MEMBER ACTIONS REQUESTED:
• Respond to staff questions (p. 7) by June 21st

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Monica R. Valentine

Through: Monica R. Valentine, Executive Director

Subj: Request for Guidance—Losses on Intragovernmental Receivables – **Tab I**[1]

MEETING OBJECTIVES

The objective of this session is to consider a draft Technical Bulletin to address a request for guidance by the Department of the Treasury (Treasury) regarding intragovernmental allowances for losses.

BRIEFING MATERIAL

The Staff Analysis is attached along with staff's recommendation and questions for the Board on page 7. You may electronically access all of the briefing material at http://www.fasab.gov/board-activities/meeting/briefing-materials/.

Attachment A- Staff Analysis

Attachment B- Draft Technical Bulletin Exposure Draft, *Loss Allowance for Intragovernmental Receivables*

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

In June 2018, the Treasury raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid.

At the December 2018 meeting, an educational session was held to provide the Board with a perspective from an agency with significant intragovernmental receivables. A representative from the General Services Administration (GSA) provided a brief overview of GSA's types of receivables and reporting. No specific decisions were made at the meeting.

Treasury's Bureau of the Fiscal Service representatives provided the Board their perspective and position on intragovernmental allowances for at the April 2019 meeting. The Treasury representatives focused on an overview of the intragovernmental allowances for losses, an example of one of the largest material allowances—Treasury Judgement Fund, and implementation perspective from the Treasury, Deputy Chief Financial Officer .

From these meetings, the Board agreed the issue regarding the uncertainty and ambiguity in SFFAS 1 should be clarified.

NEXT STEPS

The next steps will depend on the Board's answers to the staff questions. [Note: staff has included a discussion as to why a Technical Bulletin was chosen as the vehicle for addressing this guidance. Staff also included pertinent information on Technical Bulletins for board members.] Staff recommendation for next steps is to move forward and issue the technical bulletin for public comment. If Board member comments are substantial, then staff may need to provide a revised document for a 15 day review before exposing. Alternatively, members may wish to pursue a different GAAP level - document to address this issue.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at batchelorm@fasab.gov with a cc to valentinem@fasab.gov.

Attachment A- Staff Analysis

June 2018 Meeting

At the June 2018 meeting, Department of the Treasury (Treasury) raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. Treasury provided the example that it makes judgment claim payments on behalf of many federal agencies. Although agencies are required, in many cases by statute, to reimburse Treasury for some payments, many of these reimbursements are not made in a timely manner—raising questions about collectability.

Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid. Although Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, indicates that losses should be recognized when it is more likely than not that the balance will not be totally collected, Treasury believes that the language in SFFAS 1 is vague because it does not distinguish between public versus intragovernmental transactions.

The Board discussed the issue, noting that there may be similar circumstances in other agencies and that Congress would have to take action to legally relieve an agency of the liability.

Staff noted other intragovernmental receivables arise from activities such as revolving fund transactions, transfers of revenue collected by one agency to another agency, and reimbursable agreements. Staff is aware that some agencies have recognized losses on intragovernmental receivables due to disputes regarding the amount.

Certain members noted the need is to assess whether amounts recognized are realizable. The allowance approach is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. Board members expressed reluctance to revise current standards, noting that they did not wish to remove the element of judgment regarding collectability of receivables. The Board generally agreed that evaluating collectability of intragovernmental receivables would be more appropriate.

December 2018 Meeting

At the December meeting, there was an educational session and a General Services Administration (GSA) representative provided an overview of their types of receivables—classic trade receivables and money owed to Treasury for the Judgment Fund. The GSA representative explained GSA's accounting before and after the September 15, 2017, Treasury memo. Prior to the memo, GSA would book an allowance for bad debt on federal receivables based on the collectability. However, based upon the guidance in the memo, GSA no longer books a bad debt allowance on federal receivables. There was an audit finding for GSA as it relates to this accounting change.

April 2019 Meeting

At the April meeting, Treasury requested the Board consider additional information on the intragovernmental allowances for losses issue. Treasury's representatives provided the Board their perspective and position on this issue by presenting an overview of the intragovernmental allowances for losses, an example of one of the largest material allowances—Treasury Judgement Fund, and implementation perspective from the Treasury, Deputy Chief Financial Officer (DCFO). The Treasury representatives also provided much detail regarding the intragovernmental differences and how they have been reduced as well as the composition of the intragovernmental difference balances.

The presentation elaborated on that Treasury believes SFFAS 1, paragraph 44 is not clear on whether it applies to intragovernmental receivables, implying that there could be delineation in the application of doubtful accounts against "public" and "intragovernmental" receivables. Because of this, policy was issued by Treasury Bureau of the Fiscal Service system and changes were made to require no allowance for losses of intragovernmental receivables and to ensure consistent treatment government-wide.

However, certain agencies (including Treasury DCFO) and auditors did not believe there was adequate justification to change accounting as suggested by the Treasury Bureau of the Fiscal Service. Due to the differing views, Treasury requested FASAB's guidance and interpretation on the intent of SFFAS 1.

The Board discussed whether the intragovernmental allowances for losses issue needed to be addressed. Certain members noted that the issue appeared to be bookkeeping and not within FASAB's purview. Further, based on the presentation and discussion, the issue has been resolved through the closing package or top-level journal vouchers so it didn't appear to require Board involvement.

Board members also believed it important to note the allowance approach is not actually a "write-off" of a receivable; it is an adjustment to estimate the amount that is realizable. There still is statutory authority to collect. Therefore, the Board was reluctant to revise the standards. Further, members believed did not believe it appropriate especially, when it may remove an element of management judgment. Additionally, certain members believed the issue could be resolved through preparer/auditor discussion or on Treasury's own.

However, members did note that there was obvious confusion or ambiguity considering the request and the differing views. While the Board agreed the issue regarding the uncertainty and ambiguity should be clarified, most members believed that the silence in

SFFAS 1 did not mean that the application of the paragraphs did not apply to intragovernmental receivables.

Staff Recommendation

This topic has been on the agenda and discussed at three Board meetings. While there has not been Board deliberation on what the specific guidance should provide, the Board decided at the April 2019 meeting that guidance should be provided because there was apparent uncertainty in this area. Based on staff's understanding of the discussion, staff believed the Board wanted to remove any ambiguity or confusion in SFFAS 1 that may exist in this particular area.

Therefore, staff has developed a proposal to provide clarity and to resolve the perceived uncertainty related to intragovernmental allowances for losses. Staff did not believe the Board was inclined to change the existing standards based on staff's understanding of the meeting discussions and review of the Board meeting transcripts. Key reasons are summarized below:

- The allowance approach is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. Further, there still is statutory authority to collect.

- Members did not wish to remove the element of judgment regarding collectability of receivables.

- Members believed that the issue appears to be bookkeeping and not within FASAB's purview. Also, the issue has been resolved through the closing package or top-level journal vouchers.

Therefore, staff's recommendation is to remove any ambiguity or confusion in SFFAS 1 that may exist regarding intragovernmental receivables by directly answering the following questions:

- Does silence in distinguishing between intragovernmental receivables and receivables from nonfederal entities in the accounts receivable standards in SFFAS 1 mean the standards only apply to receivables from nonfederal entities?
- Does the guidance regarding recognition of losses provided in SFFAS 1 paragraphs 41-51 apply to both intragovernmental receivables and receivables from nonfederal entities?
- Is there additional guidance regarding recognition of losses for intragovernmental receivables that should be considered, especially when a statue or law requires that the receivable be reimbursed?

Staff also recognized that we needed to determine the best GAAP document to provide such guidance. Staff considered the following: Staff Implementation Guidance, Technical Bulletin, and Interpretation.

Interpretations clarify SFFAS provisions and are considered the same level of GAAP and follow the same due process requirements. Staff did not believe an Interpretation was appropriate because staff did not believe this issue requires that amount of Board time.

Technical Bulletins (TB) provide guidance for applying existing FASAB Statements and Interpretations and resolving accounting issues not directly addressed in them by establishing new standards. Staff Implementation Guide provide guidance for applying existing Statements and Interpretations but may not promulgate new accounting standards.

In selecting between a Staff Implementation Guide and TB, staff believes a TB would be more appropriate because of the materiality of the Treasury Judgment Fund. In addition, the Treasury issued guidance affected all agencies. Therefore, it has widespread impact though we aren't necessarily changing GAAP. This impact is a result of Treasury's guidance and system change that affected agencies.

As noted above, there appears to be perceived uncertainty related to intragovernmental allowances for losses. Specifically, there is a lack of clarity regarding recognition of losses and its applicability to the intragovernmental receivables.

Therefore, staff recommends a TB to address this issue regarding intragovernmental allowances for losses. TBs provide guidance for applying existing FASAB Statements and Interpretations and resolving accounting issues not directly addressed by them. Due process procedures, content specifications, and voting requirements are found in Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*.

The following kinds of guidance may be provided in a TB:

a. Guidance to clarify, explain, or elaborate on an underlying Statement or Interpretation,

b. Guidance to address areas not directly covered by existing Statements or Interpretations,

c. Interim guidance on problems in applying an existing Statement or Interpretation currently under study by the FASAB, or

d. If applicable, guidance for applying FASB or GASB standards to federal activities.

TB 2000-1 provides guidelines for assessing whether an issue may be resolved by issuing a TB. Based on staff's assessment, staff believes a TB would be the most appropriate GAAP guidance because it is not expected to cause a major change in accounting practice.

If Board members agree and support guidance through a TB, the due process time and procedures are much shorter than for other types of guidance. FASAB members will be provided with copies of a TB before its release for comment. Within 15 days of sending the draft TB to FASAB members, the Executive Director will review member comments and confirm that a majority do not object to the proposed TB.

TBs are exposed for a minimum of 15 days—the due process requirements are similar for maintaining a public record of all written comments received. All comments received on the draft TB will be given to the Board before final issuance. A TB will not be issued if a majority of the FASAB members object either to the guidance in it or to communicating that guidance in a Technical Bulletin.

QUESTIONS FOR THE BOARD:

As explained above, staff recommends resolving any uncertainty or ambiguity that may exist regarding recognition of losses and intragovernmental receivables in SFFAS 1 with a Technical Bulletin document.

1. Does the Board agree with the staff recommendation?

2. If the Board agrees, staff requests Board member feedback on the Draft Technical Bulletin, *Loss Allowance for Intragovernmental Receivable,* at the June meeting so that an exposure draft may be issued for comment. Do Board members have comments on the Draft?

3. If members disagree, what alternatives do you prefer to address the issue? For example, do members wish to pursue a different GAAP level - document to address this issue?

Federal Accounting Standards Advisory Board

LOSS ALLOWANCE FOR INTRAGOVERNMENTAL RECEIVABLES

Technical Bulletin 2019-X

Exposure Draft

Written comments are requested by October XX, 2019

August XX, 2019

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
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Washington, DC 20548
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Federal Accounting Standards Advisory Board

August XX, 2019

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

Your comments on the exposure draft of a proposed Technical Bulletin, entitled *Loss Allowance for Intragovernmental Receivables,* 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 XX, 2019.

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:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
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,

Monica R. Valentine

Executive Director

EXECUTIVE SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

This Technical Bulletin (TB) clarifies existing standards regarding accounts receivables and related recognition standards and reporting. Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, establishes the definition, recognition, measurement, and disclosure requirements for accounts receivables. It also provides for receivables from federal entities, which are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.

This TB would clarify SFFAS 1 by establishing that silence in distinguishing between intragovernmental receivables and receivables from nonfederal entities does not mean the standards only apply to receivables from nonfederal entities. This TB would also clarify that recognition of losses, provided in paragraphs 41-51 of SFFAS 1, apply to both intragovernmental receivables and receivables from nonfederal entities.

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

This proposal would facilitate consistent reporting of accounts receivables in accordance with 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 https://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:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, DC 20548

All responses are requested by October XX, 2019.

Q1. The proposed Technical Bulletin (TB) would provide that silence in distinguishing between intragovernmental receivables and receivables from nonfederal entities in Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, does not mean the standards only apply to receivables from nonfederal entities.

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

Q2. The proposed TB would clarify that recognition of losses provided in paragraphs 41-51 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities.

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

Q3. FASAB has an active project to evaluate existing standards. **Do you believe there are other areas of SFFAS 1, other SFFASs, or portions thereof that should be evaluated or reassessed? Respondents should suggest existing standards they believe need clarification or provide opportunities for burden reduction. This includes elimination of unnecessary or redundant requirements. Please provide the rationale for your answer.**

PROPOSED 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 (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 TB?**

4. This TB clarifies standards regarding accounts receivables and related recognition standards and reporting.

5. **Does silence in distinguishing between intragovernmental receivables and receivables from nonfederal entities in the accounts receivables standards in SFFAS 1, *Accounting for Selected Assets and Liabilities,* mean the standards only apply to receivables from nonfederal entities?**

6. No, silence in distinguishing between (or not specifically referring to both) intragovernmental receivables and receivables from nonfederal entities in the accounts receivables standards does not mean that the standards strictly apply to receivables from nonfederal entities.

7. Paragraph 40 of SFFAS 1 states, “The accounting standard for accounts receivable is set forth below.” The standards provided in SFFAS 1 continue to refer to “accounts receivable” as such.

8. SFFAS 1 acknowledges that there are two types of receivables and provides for separate reporting in paragraph 42 as follows: “***Separate reporting***. Receivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.” Similarly, SFFAS 1 distinguishes between entity and non-entity receivables.

9. However, in making this distinction in paragraph 42, SFFAS 1 does not imply that the accounts receivables standards will distinguish between intragovernmental receivables and receivables from nonfederal entities for other areas, such as recognition of losses or disclosures. Instead, SFFAS 1 consistently refers to “receivables” or “accounts receivables” when discussing both topics, just as it addresses recognition of receivables prior to identifying the two types of receivables for separate reporting in paragraph 42. The Federal Accounting Standards Advisory Board (FASAB or “the Board) made the distinction only when discussing the separate reporting.

10. Does the guidance regarding recognition of losses provided in paragraphs 41-51 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities?

11. Yes, guidance regarding recognition of losses provided in paragraphs 41-51 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities. As discussed in the previous question, silence in distinguishing between intragovernmental receivables and receivables from nonfederal entities in the accounts receivable standards of SFFAS 1 does not mean the standards only apply to receivables from nonfederal entities.

12. The accounts receivable standards in SFFAS 1 primarily refer to "receivables" and do not distinguish between specific types, with the exception of paragraph 42 that provides for separate reporting.

13. SFFAS 1 details the recognition of receivables, the recognition of losses, and disclosure by referring to "receivables" and not distinguishing between intragovernmental receivables and receivables from nonfederal entities. Paragraph 42 is the only paragraph in the accounts s standards that distinguishes between intragovernmental receivables and receivables from nonfederal entities by providing for the separate reporting of them.

14. Is there additional guidance regarding recognition of losses for intragovernmental receivables that should be considered, especially when a statute or law requires that the receivable be reimbursed?

15. The allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. It is important to consider that the standard is to assess whether amounts recognized are realizable and the allowance approach is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable.

16. Other factors and criteria that are considered regarding these types of intragovernmental receivables and recognition of losses should be documented in departmental policy and be consistent with government-wide policies.

17. Paragraph 131 of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, acknowledges that the allowance for intragovernmental exists, but may not always be needed:

> The allowance for bad debts should be based on an analysis of both individual accounts and groups of accounts, as appropriate under the circumstances. This principle is explained in the standard for accounts receivable.[footnote omitted] For intragovernmental transactions, allowances for bad debts may not always be needed, because full payment can often be assumed.

EFFECTIVE DATE

11. 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 (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 October 2010, 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 the Treasury Request

A1. The Department of the Treasury (Treasury) raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid.

A2. Treasury provided the example that it makes judgment claim payments on behalf of many federal agencies. Although agencies are required, in many cases by statute, to reimburse Treasury for some payments, many of these reimbursements are not made in a timely manner—raising questions about collectability.

A3. Although SFFAS 1 indicates that losses should be recognized when it is more likely than not that the balance will not be totally collected, Treasury requested FASAB to review the language and provide guidance because it believes that the language in SFFAS 1 is vague. Specifically, Treasury believes SFFAS 1, paragraph 44 is not clear on whether it applies to intragovernmental receivables, implying that there could be delineation in the application of doubtful accounts against "public" and "intragovernmental" receivables.

A4. Specifically, Treasury interpreted the silence to mean FASAB has no view on intragovernmental, or did not intend to include it in the guidance for recognition of losses because it does not distinguish between public versus intragovernmental transactions. Because of this, Treasury issued policy and the Bureau of the Fiscal Service made system changes to preclude agencies from reporting an allowance for losses of intragovernmental receivables and to ensure consistent treatment government-wide.

A5. As a result, some agencies and auditors do not believe there is adequate justification to change accounting as suggested by Treasury.

A6. At a minimum, Treasury believes that it is not clear what the intent of SFFAS 1 is and seeks clarification. The Board agrees that guidance will resolve any uncertainty regarding SFFAS 1.

CURRENT STANDARDS

A7. SFFAS 1 provides the accounting standards for accounts receivables and related recognition and reporting standards in paragraphs 40-52 as follows:

> ### Accounts Receivable
>
> 40. Accounts receivable arise from claims to cash or other assets. The accounting standard for accounts receivable is set forth below.
>
> 41. ***Recognition of receivables.***[footnote omitted] A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made. [See SFFAS 7, paragraph 53 for more.]
>
> 42. ***Separate reporting.*** Receivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.
>
> 43. ***Entity vs. Non-entity receivables.*** Receivables should be distinguished between entity receivables and non-entity receivables. ***Entity receivables*** are amounts that a federal entity claims for payment from other federal or nonfederal entities and that the federal entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection.[footnote omitted] ***Non-entity receivables*** are amounts that the entity collects on behalf of the U.S. government or other entities, and the entity is not authorized to spend.[footnote omitted] Receivables not available to an entity are non-entity assets and should be reported separately from receivables available to the entity.
>
> 44. ***Recognition of losses due to uncollectible amounts.*** Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase *more likely than not* means more than a 50 percent chance of loss occurrence.
>
> 45. An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value.[footnote omitted] The allowance for uncollectible amounts should be reestimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct.

46. ***Measurement of losses.*** Losses due to uncollectible amounts should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.

47. ***Individual account analysis.*** Accounts that represent significant amounts should be individually analyzed to determine the loss allowance. Loss estimation for individual accounts should be based on (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.

48. The allowance for losses generally cannot be based solely on the results of individual account analysis. In many cases, information may not be available to make a reliable assessment of losses on an individual account basis or the nature of the receivables may not lend itself to individual account analysis. In these cases, potential losses should be assessed on a group basis.

49. ***Group analysis.*** To determine the loss allowance on a group basis, receivables should be separated into groups of homogeneous accounts with similar risk characteristics.

50. The groups should reflect the operating environment. For example, accounts receivable can be grouped by: (a) debtor category (business firms, state and local governments, and individuals), (b) reasons that gave rise to the receivables (tax delinquencies, erroneous benefit payments, trade accounts based on goods and services sold, and transfers of defaulted loans to accounts receivable), or (c) geographic regions (foreign countries, and domestic regions). Within a group, receivables are further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables.

51. Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks.

52. ***Disclosure.*** Agencies should disclose the major categories of receivables by amount and type, the methodology used to estimate the allowance for uncollectible amounts, and the total allowance.

A8. The previous Board was consistent in the accounts receivables standards language in SFFAS 1. SFFAS 1 consistently refers to "receivables" or "accounts receivables" because the asset standard being discussed is Accounts Receivable. Therefore, these terms are used when discussing recognition of receivables, recognition of losses, and disclosures.

A9. The only time the distinction is made between intragovernmental receivables and receivables from nonfederal entities is in the paragraph specific to separate reporting. Therefore, there is no indication that a distinction would be made in other circumstances.

OTHER FACTORS CONSIDERED

A10. While FASAB staff understand Treasury's position, staff does not believe this position justifies recommending that the Board revise current standards. Current standards require the allowance approach and that is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. Further, there still is statutory authority to collect. Staff also does not believe the Board would want to remove the element of judgment regarding collectability of receivables.

A11. In addition, staff believes that documenting criteria for evaluating collectability of intragovernmental receivables would be more appropriate by management in departmental policy or guidance. Treasury may want this to be done in consultation or in coordination with its auditor.

A12. Staff also notes that the discrepancy appears to be a potential bookkeeping issue and not within FASAB's purview. Further, the issue has been resolved through the closing package or top-level journal vouchers in the past and may not necessarily need FASAB involvement.

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

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