FASAB Exposure Draft: Questions for Respondents due October 1, 2019

Loss Allowance for Intragovernmental Receivables

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	Kearney & Company		
Federal Entity (user)			
Federal Entity (preparer)			
Federal Entity (auditor)			
Federal Entity (other)		If other, please specify:	
Association/Industry Organization			
Nonprofit organization/Foundation			
Other		If other, please specify:	
Individual			

Please provide your name.

Name: Bill Kubistal

Please identify your organization, if applicable.

Organization: Kearney & Company

Q1. The proposed Technical Bulletin (TB) would provide that the absence of explicit guidance distinguishing between the accounting of 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.

Agree – The accounting framework requires that receivable balances are recognized at net realizable value when it is more likely than not that the balance will not be totally collected. The framework then describes the process in which losses are estimated and the frequency of the evaluation. The process provides flexibility and is appropriate for Federal and non-Federal receivables.

While several factors exist that make uncollectible losses less likely on Federal receivables, situations may arise in which it is necessary and appropriate to recognize uncollectible losses on Federal receivables. The current framework provides the flexibility to address unusual and unforeseen events without requiring the need to define those events in advance. If the accounting framework were to specifically exclude Federal receivables from collectability analysis, it would create a gap in the framework, meaning that no guidance would exist to address Federal collectability issues if the need arose. Excluding Federal receivables from collectability losses is based on an unproven assumption, and the current standard is comprehensive with the appropriate amount of flexibility.

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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.

Agree – See rationale in answer to Q1 above.

Q3. The proposed TB would clarify that an allowance recognized in a reporting entity's financial statements does not alter the underlying statutory authority to collect the receivable or legal obligation of the other intragovernmental entity to pay.

Agree – The allowance is a financial reporting concept to recognize estimated net realizable value at a point in time. It is subject to prospective upwards or downwards revision. Actual amounts collected may differ from the estimated amount. The allowance is a mechanism for management to acknowledge that facts exist which indicate the entire balance may not be collected.

Recognition of an allowance does not alter or weaken an entity's legal claim for the entire balance. The legal claim can only be relieved through legal or regulatory action. As required by statues, the creditor agency should pursue all means available to collect outstanding funds. These collection actions are independent of allowance recognition, and the statues provide a clear roadmap of collection options. A similar statutory requirement exists for the debtor agency once any underlying issues are resolved.