<u>GSA Response to FASAB ED Budget and Accrual Reconciliation Questions</u>

Q1. The Board proposes to replace the current Statement of Finance (SOF) requirement with the new budget and accrual reconciliation (NBAR). The NBAR reconciles the net outlays to net cost of operations. This presentation explains the difference between budgetary and financial accounting. The proposed Statement would apply to component reporting entities and describes the NBAR method and related disclosures. Refer to paragraphs six to nine.

Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, should the NBAR be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.

We agree that the SOF should be replaced. While the proposed NBAR is seen as a significant improvement over the SOF; we disagree with the proposed requirements of NBAR reporting and particularly the proposed illustrative format and suggest that the FASAB Board take an alternative approach.

As an alternative to the NBAR, we recommend that the Board consider an approach similar to the Statement of Cash Flow used by non-Federal entities. As Outlays are arguably the most significant element of budgetary reporting that are monitored and used by multiple user communities, we concur that the focus on this element for assessing budgetary to proprietary consistency is useful. Outlays are budgetary balances closely tied to balances reported in financial reporting. Since outlays and most Fund Balance with Treasury (FBwT) transactions are effectively cash, it is suggested that a Statement or disclosure bridging Net Cost to Changes in FBwT should be considered in place of the proposed requirements and formats.

The proposed format of the NBAR has many similarities to formats used in compiling Statements of Cash Flows (SoCF) under the indirect method. In addition the SoCF uses of sections to segregate Financing Activities and Investing Activities from Operating Activities would seem preferable for average readers to understand the changes in FBwT. We would recommend that a cash flows model be formatted in a way to have balances walk from Net Cost to Outlays, similar to the NBAR, and also add additional lines to display balances of FBwT transactions that do to not impact Outlays, to compute the total change in FBwT. This approach would achieve similar display to the format proposed for the NBAR, and provide a more comprehensive display of balances impacting FBwT. Unique balances such as non-cash Outlays would become more prominent as they are not components of FBwT and may become line-items in presenting the transactions to add or subtract from Outlays to sum to the total change in FBwT.

Since the new reconciliations bridges differences between Net Cost and Outlays, it provides much less information than the SOF to tie to budget reporting. However, we concur with the stated criticisms of the SOF as being too complex, not easily understood, and not useful to readers. The SOF is effectively an accounting reconciliation that only experts in Federal budgeting and accounting can make sense of, and provides more of a reconciliation check rather than information helpful to users. We strongly recommend the segregation of Federal vs non-Federal activity as columns on the illustrative statements be removed. Such segregation in the display would create significant challenges, as many of the reported amounts are not captured, with control and validation at such levels to be reconcilable between Net Cost and Outlays. Further, it is not clear that resulting information would be of particular use to many agencies.

If the NBAR is used keep it in the footnotes. If the Statement of Cash Flows is used place it in the Financial Statement.

Please see the additional comments on specific paragraphs of the exposure draft provided separately.

Q2. The Board proposes to require a narrative disclosure regarding the reconciliation and disclosure of the amount and nature of non-cash outlays. Refer to paragraphs six and 12.

Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.

Yes, we agree with the narrative discussion of the background for the statement, and discussions on the nature of non-cash outlays should be included to enhance the reader's understanding of the information presented.

However, we disagree that the disclosure should normally include sections describing year-to-year variances, as suggested in second paragraph of the illustrative disclosure. We believe that such variances should be described in MD&A components of an AFR, similar to discussions of reporting fluctuations and variances for other financial statements.

Q3. The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. In addition, restatement of comparative prior period information would be required. Refer to paragraph 13.

Do you agree or disagree that the effective date, the early adoption, and restatement of comparative prior period information are reasonable? Please provide the rationale for your answer.

We disagree with the effective date of periods beginning after September 30, 2017. We agree that early adoption of a Statement should be permitted. However, we recommend that if comparative prior period information is required, the reporting effective date should be moved to periods after September 30, 2018. If only current-year balances are required in the first year of reporting, we would concur with the requirement to start reporting after September 30, 2017, with an unaudited comparative prior year display being optional.

It is not understood what prior year statement the Board intends to be restated if FY 2018 reporting is required. The existing SOF, which reconciles very different sets of balances, has little comparability to the proposed NBAR, and we would not consider the change from the SOF to NBAR to be a restatement.

For agencies that prepare quarterly statements or FY third-quarter reporting requirements in accordance with OMB Circular A-136, requiring a comparative prior period display for FY 2018 reporting would create significant difficulty. As we are almost through the second fiscal quarter of FY 2017 already, and issuance of a final Standard would take weeks or months into the third fiscal quarter at best, agencies would be very behind at collecting the FY 2017 transactions necessary to prepare comparative reporting. In some instances additional controls, reconciliations and data capture will be required for compilation of the NBAR, which can be very difficult to achieve with retroactive implementation to past quarters.

Page No.	Paragraph	SUBJECT/TITLE:	RECOMMENDATIONS/COMMENTS	Commenter	Office	Email Address/Phone
6 and 7		Questions #1-3	See attachment	Edward Gramp	OCFO/BGC	edward.gramp@gsa.gov
9	6	replacement paragraphs 80-82	In the proposed new paragraph 81.c., it is indicated that balances for Timing Differences may include prior period adjustments. This seems very unusual compared to other statements, where comparative statements are restated for prior period adjustments as defined in SFFAS 21. Possibly this language is referencing non-material adjustments sometimes adjusted in SF133 reporting. This standard need to be more clear as to when SFFAS 21 applies and circumstances when it does not.	Edward Gramp	OCFO/BGC	edward.gramp@gsa.gov
10	7	replacement paragraphs 91-93	The wording for the replacement paragraph 92 discusses how the BAR could be presented for different levels of an entity. Please clarify that the BAR presentations should be consistent with entities presented for the SBR and Net Cost statements. This is required to be a reconciliation between the two.	Edward Gramp	OCFO/BGC	edward.gramp@gsa.gov
10-11	9	replacement of paragraphs 95-102	Suggest the Board consider captions segregating Financing and Investing activities similar to Statement of Cash Flows used in private sector. Further, either in this section, or in the illustrative examples, this Standard needs to discuss the presentation of leases on the BAR, particuarly if the Board expects issuance of leasing standards to adopt right-to-use concepts for asset and liability recognition.	Edward Gramp	OCFO/BGC	edward.gramp@gsa.gov
13		Illustrative Statement	The presentation of columns to segregate Federal fron non-Federal balances causes several problems for this statement. Many agencies with immaterial Federal or non-Federal balances do not always display the Net Cost split this way, so there would not be comparability to many balances. The illustrative balances show many examples with notation of XXX for possible $ amounts when there should be no such balances on certain of the lines. For instance, a line for Transfers as well as Imputed Costs would only ever be Federal in nature, but the display includes XXX in the non-Fed column. For balances shows PP&E Depreciation, it is not clear if having the XXX in the Federal column implies that agencies should report depreciation based on the Fed vs Non-Fed source that the asset was acquired from, or other basis. If there are balances intended under the Fed column for depreciation and the line for Asset Disposals/writeoffs, this would be inconsistent with current SGL reporting, where all PP&E is considered as Non reciprocal (non-Fed), with only the acquisition 88XX00 SGL accounts indicating the acquisition source information. Also, this illustrative display would seem to benefit greatly from realignment of categories to be segregated into Operating activities, vs Financiang activities, vs Investing activities, similar to the private sector Statement of Cash Flow models. It would seem much more clear for users to see changes in current assets and liabilities that are directly associated with changes in Net Cost apart from changes in long-term assets and liabilities. For instance, having one line for changes in Loans Receivable in the section under Components of Net Cost That are Not Part of Net Outlays can be very misleading, as some changes directly relate to Net Cost, while other changes in Loans can have no impact on Net Cost.	Edward Gramp	OCFO/BGC	edward.gramp@gsa.gov
NA	NA	Title	The only budgetary SGL accounts that Treasury currently has on the draft crosswalk are related to either capital transfers to Treasury or borrowing authority converted to cash. We no longer report the obligations incurred or spending authority from offsetting collections, recoveries, etc. like we did for the Statement of Financing. They could easily rearrange the sections to cash flows from operating, investing, and financing activities rather than the current headings which are: components of net cost not part of net outlays, components of net outlays not part of net cost, and other temporary timing differences. The last section will never be used unless we have to report prior-period adjustments.	Michael Ward	BGA	george.ward@gsa.gov
NA	Na		The stated goal seems to be to do that but I don't see how what they've proposed accomplishes that goal. Also, breaking this reconciliation out into public vs intra governmental also seems to be overkill. The only other place I'm aware that is done is the unaudited schedule of spending and I'm not sure the average reader cares if its fed vs non fed. I did not see where they said this new NBAR was going to be presented in the financial statements but as it is only a reconciliation I would highly recommend it stays where the current schedule of financing is or is moved to be with the schedule of spending. My last comment is on the effective date. They want this to be effective for FY18 but since we are already half way through FY17 I'd push for that to be moved back one year to FY19.	Jared Leicht	BGA	jared.leicht@gsa.gov