FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
April 24-25, 2019
Room 7C13 & 2N30
441 G Street, NW
Washington, D.C. 20548

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Wednesday, April 24, 2019

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chair), Mr. Bell, Ms. Bronner, Messrs. Dacey, Granof, McNamee, Scott, Smith, and Soltis. The incoming executive director, Ms. Valentine, the outgoing executive director, Ms. Payne, and general counsel, Mr. Kirwan, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

The Board approved the February meeting minutes prior to the meeting.

- **Updates and Clippings**

The incoming executive director, Monica Valentine, was introduced. Wendy Payne, the outgoing executive director, was recognized for her 28 years of service.

Mr. Granof gave a brief update on the activities of the Governmental Accounting Standards Board, including projects on conduit debt, concepts for note disclosures, an implementation guide on fiduciary activities, the financial reporting model reexamination, subscription-based information technology arrangements, public-private partnerships, and revenue recognition.

The discussion of the clippings provided to the Board focused on sustainability information and improper payments.

Agenda Topics

- **Liability Interpretation**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to review responses to the exposure draft (ED), *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5,* and consider the staff analysis and recommendations. The materials were included in the briefing materials at tab A.

Staff briefly explained the results from respondents:

- The majority of respondents *generally disagreed* with the proposal that the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*. Instead, the majority of the respondents agreed with the alternative that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5.

- The majority of respondents *generally agreed* that the SFFAS 5 liability recognition criterion that "[a] future outflow or other sacrifice of resources is probable" should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

- The majority of respondents *generally disagreed* that there are liability situations or examples when a similar condition occurs other than contingent liabilities and cleanup costs. The majority of respondents *generally disagreed* that an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability.

Staff, therefore, recommended the proposed Interpretation only address cleanup cost. Ms. Batchelor recommended that the contingent liability guidance be removed from the Interpretation. There were substantial comments and differing reasons provided by respondents for disagreement. However, staff noted the purpose of the Interpretation was to provide clarification and guidance regarding an issue, and it appeared that it may lead to greater ambiguity and questions if the contingent liability portion was included.

Ms. Batchelor explained that staff contacted the agency that had requested guidance in this area and determined that the impact of not including contingent liability guidance would be immaterial or minimal. In addition, this agency (or any other agency) could not provide other contingent liability examples that should be considered by the Board.

Ms. Batchelor noted that, prior to the meeting, seven members provided preliminary feedback and indicated support for staff's recommendations.

Mr. Showalter requested decisions regarding the staff questions and also explained the goal of a pre-ballot draft for the June 2019 meeting, so all technical matters should be brought up for discussion.

Question 1 – Does the Board agree with the staff recommendation to remove guidance for contingent liabilities from the Interpretation?

The Board discussed the respondents' disagreement with the contingent liability proposal. Certain members noted that respondents gave differing reasons for disagreeing and that some reasons may be considered somewhat theoretical. There was not one universal or common theme from the respondents for disagreement, and certain responses were very high level. Without further discussion with the respondents, it was not clear to the Board if the reasons were disagreement or a desire for clarity of the intent. For example, some respondents stated the contingent liability guidance should be in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, or SFFAS 5. The Board noted, however, that the purpose of the Interpretation was to provide guidance that would be in accordance with generally accepted accounting principles (GAAP), so the guidance is consistent with SFFAS 4 and SFFAS 5.

Although certain members recognized that there had been disagreement by respondents, they believed that some comments may not have been conflicting as presented. As a result, they contemplated whether the contingent liability proposal just needed more clarity of intent. However, based on the fact that there does not appear to be a need for guidance in the contingent liability area, there is no reason to address this in the Interpretation.

The Board agreed with staff's recommendation to remove guidance for contingent liabilities from the proposed Interpretation.

Question 2 – Does the Board agree with the staff recommendation to move forward with the Interpretation for cleanup cost liabilities?

The Board agreed with staff's recommendation to include cleanup costs in the proposed Interpretation.

Question 3 – Does the Board agree with the staff recommendation that no other areas be addressed and that no additional principle be included?

The Board agreed with staff's recommendation that no other areas be addressed and that no additional principle be included in the proposed Interpretation.

The Board also discussed how the basis for conclusions would bridge the topic of contingent liabilities from the ED to the final Interpretation. The Board agreed the basis for conclusions should explain that the Board did not include the contingent liability guidance in the final Interpretation because it determined there was no longer a need for guidance. The Board also requested staff to consider revising the title of the final Interpretation due to the change in areas addressed in the document. The Board also requested that staff include language in the basis for conclusions that the Board is open to considering specific situations that might be raised in the future related to this.

> **Next steps:** The Board agreed with staff's recommendation to move forward with the proposed Interpretation that only addresses cleanup costs. Staff will provide a draft proposed Interpretation before the June 2019 Board meeting for member comments. Staff will incorporate Board member comments with the goal of providing a pre-ballot proposed Interpretation at the June 2019 meeting.

- **Risk Reporting**

Ms. Robin Gilliam, assistant director, presented from tab B. Mr. Simms, assistant director, accompanied Ms. Gilliam. Ms. Gilliam explained that, per the Board's December 2018 instructions, staff interviewed preparers to determine what to include in an Interpretation of paragraphs 3 and 4 of SFFAS 15, *Management's Discussion and Analysis*. Ms. Gilliam thanked those she had interviewed.

She explained that, after analyzing interview responses, staff determined that an Interpretation was not sufficient to provide the additional guidance about financial effects of risk events because “financial effects” was not specified in the standards. Therefore, instead of an Interpretation, staff recommended amendments to SFFAS 15, paragraphs 3 and 4.

Mr. Showalter reminded the Board that members had decided in December 2018 to prepare two separate Interpretations. However, since both the risk reporting and reporting model projects are now recommending amendments to existing standards, members should carefully consider how this is best to be achieved. Mr. Simms, the project manager for the reporting model project, was also present, so that a decision could be made later during the reporting model session on how to present amendments from both projects.

Staff presented the following questions for the Board to determine which amendments to make.

Question 1 – Does the Board agree to include a forward-looking summary to help users understand how risk and uncertainty may have a material financial effect on operating results and financial statement balances different from historical results?

The Board did not support a “summary” discussion of risk. Staff presented several sample forward-looking summaries to the Board. The Board noted that the type of lead-in discussion’s displayed in the sample summaries may add unnecessary volume, misrepresent government’s knowledge of risk, and are too general. Members want the scope of the management’s discussion and analysis (MD&A) risk discussion to be agency specific. An agency-specific MD&A could, however, include the risk of policies under consideration that could affect the agency, such as collecting the 1.5 trillion dollars in student loan debt at the Department of Education or reducing deaths from the opioid epidemic at the Department of Health and Human Services. The Board also stressed the need for a concise MD&A and flexibility in applying the standards.

Question 2 – Does the Board want to amend SFFAS 15 to add the word “financial” to “effects” to clearly state “financial effects?”

The Board agreed to clarifying “effects” to ensure that impact on financial position is adequately discussed in relation to risk.

The Board discussed the scope of this change. One member was concerned with an agency quantifying risk to receive an appropriation.

Ms. Gilliam clarified that the intent is not to quantify or estimate the amount it would take to address a risk, but rather to highlight if there may be an impact to financial position. For example, will liabilities go up or assets go down? Will there be an impact to net operating cost? She further explained that this is not a lobbying effort so that Congress can appropriate more money to fix risks identified in the enterprise risk management (ERM) process.

One member liked the wording in paragraph 31 of Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*. Other members agreed that "affect the amounts reported in the financial statements" was more illustrative than "financial effects." Members felt that this wording represents the scope of the information that could be presented in MD&A by focusing on the risk to those balances.

Members agreed that this amendment should help agencies to limit discussions in the MD&A to risks that might have a material effect on amounts presented in financial statements. Some members agreed that guidance might be necessary to help agencies implement the amended SFFAS 15.

Question 3 – Does the Board want to include a definition of financial effects?

The Board noted that providing a definition will depend on wording developed from question #2.

Question 4 – Does the Board want to use the 10-K, Section 1A Risk Factors as a model for examples to illustrate how risk events can affect financial statement elements?

The Board concluded not to use 10-K examples. While the Board does believe that examples are necessary, it also believes that 10-K examples often include boilerplate language, are too general, and too voluminous.

Question 5 – Does the Board want to incorporate language from SFFAC 3, paragraph 31 and 32 into SFFAS 15?

The Board agreed to amend SFFAS 15 by including language from SFFAC 3.

Some members said that SFFAS 15 seemed minimal compared to SFFAC 3 and asked Ms. Payne for historical background on the development of SFFAC 3 and SFFAS 15.

Ms. Payne said that the Board originally worked on MD&A during the window in which it was seeking GAAP recognition from the American Institute of CPAs. She noted that SFFAC 3 is written more like an SFFAS to holistically describe MD&A even though it was exposed as a concepts statement.

During the response period, the audit community and a few preparers said that if FASAB wanted to achieve a GAAP-based statement that always included MD&A, the Board must create standards that required it. The Board, therefore, very quickly used the MD&A outline from SFFAC 3 and proposed SFFAS 15 as required supplementary information.

In Ms. Payne's opinion, the guidance in SFFAC 3 is not concepts-based. During the early 2000s, Ms. Payne attended countless meetings to remind preparers that they must read SFFAC 3 to understand what should be included in MD&A. She does not think many preparers are reading SFFAC 3 this many years later, which is why Ms. Gilliam is recommending amendments to SFFAS 15.

Ms. Payne also noted that the reason "possible future effects of anticipated future demands, events, conditions and trends" was included is there was a concern from the audit community that FASAB should not deny preparers the ability to talk about anticipated trends and events. Therefore, FASAB explicitly included language addressing these anticipations to allow agencies to discuss them in MD&A.

Members agreed that the amendment can remove discussions about "anticipated" because risk is anticipated, and risk will be discussed instead in the amendments. Members noted that moving two paragraphs from SFFAC 3 to SFFAS 15 will not address the issue, as SFFAC 3 actually contains more detailed, standards-oriented language that should otherwise be included in SFFAS 15. The project should be expanded to address this inconsistency. The amendment should ensure SFFAS 15 is a standalone document that helps to change behavior.

Mr. Showalter asked the members if they want staff to spend time amending SFFAS 15 and SFFAC 3 simultaneously or if staff should set aside SFFAC 3 and focus on SFFAS 15. Members suggested staff work on both simultaneously.

Ms. Payne added that SFFAC 2, *Entity and Display*, briefly addresses MD&A. During this amendment process, the Board could simply rescind SFFAC 3.

Members agreed the amended SFFAS 15 should be principles-based and not overly prescriptive.

Question 6 – Does the Board want to distinguish between SFFAS 15, paragraph 3 and 4 to strengthen and balance the discussion between non-financial and financial effects of risk?

The Board agreed to amend SFFAS 15, paragraphs 3 and 4, to distinguish between "risks" versus "problems" and financial versus non-financial effects of risk.

The Board agreed to include a general definition for risk and recommended adopting standard terminology that already exists, such as from the Commission of Sponsoring Organizations (COSO) and/or the Association for Federal Enterprise Risk Management (AFERM). The definition should include that risks can be articulated in both positive, for example opportunities, or negative contexts. Terminology should reference the notion that risk is anticipated, and the risk management process informs the time horizon of financial effects.

Question 7 – Does the Board want to amend SFFAS 15 to include long-term time horizon principles that are flexible in relation to an agency's program missions?

The Board decided to revisit this question after the Board approved the risk definition/terminology.

Question 8 – Does the Board want to rescind SFFAC 3, paragraph 35 and amend SFFAS 15, paragraph 3, footnote 3 to remove the guidance about *quantitative projections or forecasts,* and replace it with guidance that clearly states the expectation for including a qualitative discussion about risk factors with known quantitative amounts?

The Board decided to amend SFFAS 15 using guidance from SFFAC 3, per discussions from question #5 above.

The Board concluded the scope of this project is bigger than just moving two paragraphs over from SFFAC 3 to SFFAS 15.

Question 9 – Does the Board want to rescind SFFAC 3, paragraph 31 and amend SFFAS 15 to provide guidance that clearly states what to report for risks that have occurred and affected material changes in financial statement balances?

The Board agreed that this issue does not concern risks, but concerns the financial analysis of already existing balances. Members agreed they are not seeing analysis about material variances of financial statement amounts and requested this topic be included as part of the reporting model project.

Question 10 – Does the Board agree that guidance should be dynamic enough to allow agency discussions to develop over time as their risk management processes develop?

The Board agreed that SFFAS 15 should be flexible enough to allow for agency MD&A discussions to develop along with the maturity of their ERM processes.

Members discussed that agencies should revisit this content annually. Information should not be boilerplate or carried over from year to year. Information should reflect current risk conditions and changes over time.

Ms. Gilliam pointed out that this process should mirror ERM, which should analyze risks annually.

Next Steps:

- Staff will present options for how to discuss “financial effects” in MD&A.
- Staff will work on amendments for SFFAC 3 and SFFAS 15 simultaneously.
- Staff will include a definition that distinguishes between risks versus problems and financial versus non-financial effects of risk.

- Staff will present amendments to SFFAS 15 that allow for MD&A discussion to improve in relation to an agency's ERM process.

- **MD&A Improvements**

Mr. Ross Simms, assistant director, introduced the discussion on improvements to MD&A from tab C of the briefing materials. Mr. Simms noted that staff had drafted amendments to SFFAS 15. Paragraph 2 of SFFAS 15 states that "MD&A should contain sections that address the entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance." The proposed amendments would rescind the paragraph and references to the format requirements. The proposed amendments would permit reporting entities to structure MD&A in a manner most appropriate for communicating with general purpose federal financial report users.

Question 1 – Does the Board agree with the proposed amendments to SFFAS 15?

The Board agreed to defer the proposed amendments to SFFAS 15. Permitting flexibility in structuring information in MD&A is not as pressing as other SFFAS 15 amendments that may be needed. For instance, amendments may result from the risk reporting project, and the Board has proposed eliminating the required supplementary stewardship information (RSSI) category. RSSI includes stewardship investments information, and guidance may be needed to address how to present stewardship investments information in MD&A. Discussing all the SFFAS 15 amendments in a single Statement would minimize confusion.

The Board did not answer question 2 because it related to the proposed SFFAS 15 amendments.

> **Next steps:** Staff will continue to consider improvements to MD&A and the need for amendments to SFFAS 15.

The Board meeting adjourned for lunch.

- **Land**

Mr. Domenic Savini, assistant director, introduced the discussion from tab D concerning the accounting and reporting of government land. Members discussed the draft basis for conclusions to ensure its sufficiency in communicating the Board's rationale regarding key matters deliberated.

Question 1 – Do members believe that the basis for conclusions discussion points are (topically) sufficient to express their rationale relative to those factors the Board considered significant in reaching its conclusions? If not, what other discussion points would members wish to include? Moreover, are there discussion points which members believe do not warrant a basis for conclusions discussion and should be eliminated?

Members focused primarily on the following three areas:

- Project history (par. A1-A8)
- Incorporation of the conceptual framework (par. A9)
- Summary of outreach efforts (par. A10-A19)

A summary of the Board discussions specific to each of these areas follows:

Project History (par. A1-A8)

Members generally agreed to rearticulate and reinforce some of the more important details of what led the Board to certain decisions concerning the land project. Members agreed that the ED would be a sufficient starting point from which to draw additional content to satisfy this concern. Members did not specify any particular area of concern and requested staff to coordinate any suggested revisions with the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury). Additionally, members agreed to further increase transparency by adding a task force participant list (as used in the ED) as an appendix to the draft SFFAS.

Incorporation of the Conceptual Framework (par. A9)

Members generally agreed to incorporate SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements,* specifically paragraph 9, into the basis for conclusions. The basis for conclusions should make the decisive case for removing balance sheet amounts from the balance sheet and shifting emphasis to expensed amounts and, in particular, the disclosure of non-financial information. The Board's decision concerning land is wholly consistent with FASAB's conceptual framework. In addition, FASAB can improve transparency with the disclosures.

The Board reviewed the five key conceptual points in the paragraph and agreed that the points should each be more descriptive and better explain the thought process that drove the Board to its conclusion to remove general PP&E land from the balance sheet. Members again noted that the ED would be a sufficient starting point from which to draw the additional content.

One member summarized that the vast holdings of land in the federal government cannot adequately be conveyed to the public by trying to value land. This is due to the inherent limitations in valuation attributes and methods and the complexity of keeping said valuations relevant and reliable in a portfolio of over 622 million acres.

Summary of Outreach Efforts (par. A10-A19)

Members provided edits to this section to clarify the intent of the Statement and to better summarize key points made by the additional subject matter experts invited to the October 2018 meeting.

Question 2 – Are there any remaining technical matters members wish to raise?

The Board discussed a technical issue concerning temporary land rights (proposed amendment to SFFAS 6, *Accounting for Property, Plant, and Equipment*, which can be found in par. 40.f.i. of the ED at tab D). The proposed amendment, shown below, addresses entities adopting the guidance in SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. The amendment would allow entities establishing opening balances pursuant to SFFAS 50 to expense future acquisitions of temporary land rights. Entities not adopting SFFAS 50 would be required to capitalize and amortize temporary land rights.

> 40.f.i. The reporting entity may exclude ~~land and~~ temporary land rights from the opening balance of general PP&E. If this alternative method is applied, the reporting entity should expense future ~~land and~~ temporary land right acquisitions.

Next Steps

- Staff will incorporate a revised basis for conclusions pursuant to Board re-deliberations and work with OMB and Treasury to help ensure that their concerns are reflected in the forthcoming revisions.
- Staff will address the technical issue raised concerning temporary land rights.

- **Materiality**

Ms. Grace Wu, assistant director, presented the summary of materiality comment letters from tab E of the briefing materials. Ms. Wu noted that nearly all 19 respondents agreed with the proposed materiality guidance and its placement in SFFAC 1, *Objectives of Federal Financial Reporting*. The respondents agreed that the proposed materiality guidance provides a helpful discussion of users, scope, and factors to consider in the federal government environment. A number of respondents raised concerns about the discussion of materiality differences by line item. Some respondents suggested different placement for the proposed materiality guidance in SFFAC 1.

Question 1 – Does the Board agree or disagree with staff's suggestion to delete the last two sentences in 191C related to potential materiality differences by line item?

The Board agreed to eliminate the following language from the ED: "Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item." This avoids the misinterpretation that each line item has its own unique quantitative materiality value.

The Board asked staff to provide clarification for including the quotation from the Yellow Book in the basis for conclusions.

Question 2 – Does the Board agree or disagree with staff's suggestion that no detailed discussion on materiality's quantitative and qualitative considerations will be added to the proposed guidance?

Some respondents suggested providing detailed quantitative and qualitative guidance or references to other existing literature in the Materiality Statement. The Board discussed that references to existing literature would not be valuable, as it is not the Board's intent to endorse or prioritize these sources. The Board believes that its emphasis on the importance of evaluating both quantitative and qualitative factors in the determination of materiality, without providing specifics, allows entities broader flexibility in exercising materiality judgments. As such, no specific reference to other existing literature will be provided.

Question 3 – Does the Board agree or disagree with staff's suggestion that materiality should have its own chapter and can be placed between the current Chapter 6: Qualitative Characteristics of Information in Financial Reports and Chapter 7: How Accounting Supports Federal Financial Reporting?

The Board supports inserting a chapter titled *Materiality* between the current chapter 6: *Qualitative Characteristics of Information in Financial Reports* and chapter 7: *How Accounting Supports Federal Financial Reporting* in SFFAC 1.

Question 4 – Does the Board agree or disagree with staff's suggestion to issue the materiality guidance and then delete the non-authoritative portions of the handbook after the materiality concepts are finalized?

Several respondents asked about the impact of this guidance on the existing non-authoritative sections of other Statements and the FASAB Handbook, where materiality is also discussed. For example, the materiality discussion in SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 3, *Accounting for Inventory and Related Property*, is located in the introduction section. The FASAB Handbook includes a materiality discussion in the foreword. Both of these discussions are considered non-authoritative guidance. The Board agreed that those sections will be updated with a reference to this Statement.

Question 5 – Does the Board agree or disagree with the proposed changes to the original ED?

The Board generally agreed with the proposed changes. Staff will add a section summarizing outreach efforts and responses in the basis for conclusions.

During the meeting, one member suggested replacing "reasonably be expected" with "substantial likelihood" in the definition of materiality. Staff reminded the Board that during the June 2018 Boarding meeting, members decided to replace "substantial likelihood" with "reasonably be expected" to adapt language used by both the Auditing Standards Board and the International Auditing and Assurance Standards Board. As such, the Board decided not to revert to its original definition and will maintain the decision made at the June 2018 meeting.

One member suggested the Board define "reasonable financial report user" by adopting language from the Financial Accounting Standards Board (FASB); and simply define "user" instead of "reasonable user." Members discussed that FASB's targeted users are investors and debtors, which differs from FASAB's users. In addition, the Board should define "reasonable financial report user" to differentiate from any user. According to the Board, the reasonable user should have sufficient knowledge and be willing to study the information. Members agreed to define a reasonable financial report user in a footnote when it is first introduced.

Question 6 – Does the Board agree or disagree with staff's suggestion to forgo a hearing on the proposed statement and proceed with finalizing the standard statement?

The Board agreed to forgo a hearing and proceed with finalizing the concepts statement.

Question 7 – Does the Board wish to discuss any other matters not identified by staff in the proposed sections?

One member raised concern that issuance of this concepts statement may affect the discussion of materiality in other standards, especially related to SFFAC 3, *Management's Discussion and Analysis*, and SFFAS 15, *Management's Discussions and Analysis*. The Board then agreed to add a paragraph in the basis for conclusions to state that issuance of this Statement will not apply to the materiality discussion in those MD&A Statements.

Next Steps

- Staff will update the basis for conclusions pursuant to the Board's deliberation.
- Staff will provide a draft proposed Statement before the June 2019 Board meeting for member comments. Staff will incorporate Board member comments with the goal of providing a pre-ballot proposed Statement at the June 2019 meeting.

- **Three-Year Plan Update**

Mr. Simms introduced the annual plan session and referred members to tab F of the briefing materials for the results of an online survey and comment letters. Mr. Simms noted that participation in the fiscal year (FY) 2018 *Annual Report and Three-Year Plan* survey improved from the 2017 *Annual Report and Three-Year Plan* survey. The FY

2018 effort resulted in 134 online respondents and five comment letters compared to 74 online respondents and six comment letters for the FY 2017 effort. In both the FY 2018 and FY 2017 surveys, over 30 percent of the responses came from preparers of financial statements, the group with the highest concentration of responses.

Respondents generally supported the Board's three-year plan and, upon completion of a current project or projects, appeared to support a project on data quality and integration. Other potential projects that received strong support included a project to review the statement of budgetary resources (SBR) and a project regarding long-duration acquisition contracts.

Respondents also suggested a range of other projects the Board could consider; however, no other single project was widely supported. In addition, some of the suggestions, such as the need for a comparison of budget to actual amounts and streamlining reporting requirements, could be considered as part of current projects—the reporting model and evaluation of existing standards.

Question 1– Which potential projects should be priorities following completion of current projects?

The Board noted that the respondents confirmed the Board's three-year plan and members discussed considering data quality and integration as part of the reporting model project. Also, regarding the evaluation of existing standards project, the Board discussed reviewing the SBR and updating the SBR disclosure requirements set forth in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Mr. Bell noted that some SBR disclosure requirements discussed in SFFAS 7 are obsolete and that guidance on accounting for and reporting debt cancellations and losses on intragovernmental receivables are pressing needs that could be addressed in the short term.

Question 2 – Does the Board believe any current projects should be deferred to pursue any of the potential projects?

The Board agreed that current projects reflect the most immediate needs of users and preparers and should not be deferred.

- **Steering Committee**

The committee reviewed budget estimates for fiscal years 2021 and 2022. Committee members discussed potential incremental funding to support future staffing and will continue the discussion at the next meeting.

Adjournment

The Board meeting adjourned for the day at 4:30 p.m.

Thursday, April 25, 2019

Agenda Topics

- **Intragovernmental Allowance for Losses**

Ms. Batchelor introduced the session on intragovernmental allowances for losses. The materials for the session were provided in tab E of the briefing materials. In June 2018, 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, the Board hosted an educational session to gain 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.

Treasury requested that representatives from Treasury's Bureau of the Fiscal Service and Deputy CFO (DCFO) offices be provided the opportunity to present their perspective and position on intragovernmental allowances for losses to the Board. The following Treasury representatives presented at the April Board meeting: Ms. Jaime M. Saling (Bureau of the Fiscal Service), Ms. Jill D. Reeves (Bureau of the Fiscal Service), and Mr. Kawan Taylor (Office of the DCFO).

The Treasury representatives provided an overview of the intragovernmental allowances for losses, focusing on one of the largest material allowances—Treasury Judgement Fund, as well as providing implementation and reporting perspective from the Treasury, Deputy Chief Financial Officer (DCFO). (See the Treasury briefing slides at attachment 1 to the April Board meeting minutes.) Key points included:

- To ensure consistent treatment government-wide, 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, based in part on the following:
    - 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 "intra-governmental" receivables.
    - Treasury also cited the notion that the federal government should be considered a singular legal entity, implying that there should be no question with respect to collectability among component entities.

    - Treasury also referenced that amounts owed to the Judgement Fund must be repaid pursuant to statute (for example, Contract Disputes Act).

- Treasury DCFO implementation of the policy was complicated by uncertainty as to whether Treasury's policy was consistent with FASAB standards (Level A GAAP), prompting proposal of this issue for Board consideration.

- No allowances are recorded for loans receivable amounts, but there have been a few rare occasions when Congress passed legislation for debt forgiveness.

The Board discussed whether the intragovernmental allowances for losses issue needed to be addressed. Certain members noted:

- The issue appears to be bookkeeping and not within FASAB's purview.

- The issue has been resolved through the closing package or top-level journal vouchers.

- This could be resolved through preparer/auditor discussion or on Treasury's own because this appears to be management judgment.

- The issue is broad and relates to the government enforcing and following up on its own policies and goes beyond FASAB.

- SFFAS 1's silence does not mean that a delineation between intragovernmental and public trading partners does not apply, but the fact that there are questions demonstrates that there is perceived uncertainty.

- 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.

- There are certain significant intragovernmental receivables that may be uncollectible.

Mr. Showalter asked the members if they believed intragovernmental allowances for losses should be placed on the agenda. Certain members reiterated that they did not believe there was a GAAP question to be addressed. Mr. Showalter explained that he believed there may be confusion, and if the Board can resolve the confusion or uncertainty by clarifying, it should do so in the appropriate GAAP-level document. The Board agreed to consider intragovernmental allowances for losses as an agenda item.

Next steps: Staff will develop a proposal and alternatives to resolve the perceived uncertainty related to intragovernmental allowances for losses.

- **Implementation Process – Treasury Fiscal Service**

Ms. Saling briefed the Board on the general process employed by Treasury's Bureau of the Fiscal Service to implement federal financial reporting standards and guidance once they are issued. The proactive approach features use of the central reporting team (CRT), which is chaired by Treasury and OMB, and comprises hundreds of federal financial management and staff personnel from across dozens of agencies, including the federal government's significant reporting entities. Treasury and OMB leverage the CRT as a forum through which federal financial management best practices and common challenges can be shared and as a communication mechanism to facilitate review and/or implementation of guidance (including FASAB, FASB, Treasury, OMB, and other authoritative guidance) to assess impact on federal reporting entities. Mr. Bell noted that FASAB staff may participate in the CRT as observers.

- **Overview of Financial Report of the U.S. Government**

Mr. Bell briefed the Board on the FY 2018 executive summary to the consolidated financial report of the U.S. Government (CFR). Mr. Bell pointed out the changes in key financial performance and position metrics, including, but not limited to the deficit, net cost, total tax and other revenues, debt, and sustainability measures. The budget deficit increased by roughly 17 percent to $779 billion for 2018; however, net cost, tax and other revenues, and operating costs all remained largely unchanged compared to FY 2017 levels. Federal debt held by the public (public debt) increased by $61 billion to $21.5 trillion as of the end of FY 2018. Public debt has increased by 20 percent over the past fiscal year and by 37 percent over the past five fiscal years.

Mr. Dacey noted that the government-wide audit resulted in disclaimer. Of the 24 chief financial officer agencies, 22 received unmodified audit opinions and two received disclaimers (Department of Defense and Department of Housing and Urban Development). Mr. Soltis noted that the CFR should take a top-down approach to tell a story of the material assets and liabilities.

The Board briefly discussed other areas of the report.

Adjournment

The Board meeting adjourned at 11:00 a.m.

Attachment 1

BUREAU OF THE
Fiscal Service
U.S. DEPARTMENT OF THE TREASURY

Intragovernmental Allowance for Losses

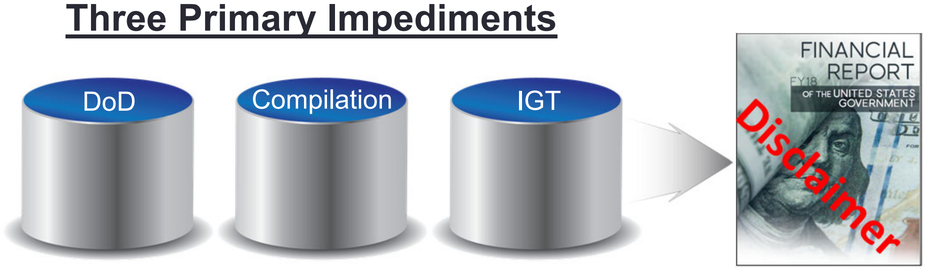
April 2019

IGT Material Weakness

History of Material Weakness for the U.S. Government

As it has for each of the past **22 fiscal years**, the U.S. Government Accountability Office (GAO) issued a disclaimer of opinion on the FY 2017 Financial Report of the U.S. Government. In its report, GAO cited the government's difficulty to "***adequately account for and reconcile intragovernmental activity and balances between federal entities***" as a material weakness and a major impediment to expressing an opinion.

Three Primary Impediments



IGT Material Weakness
The Issue

The Simplicity of the IGT Issue:

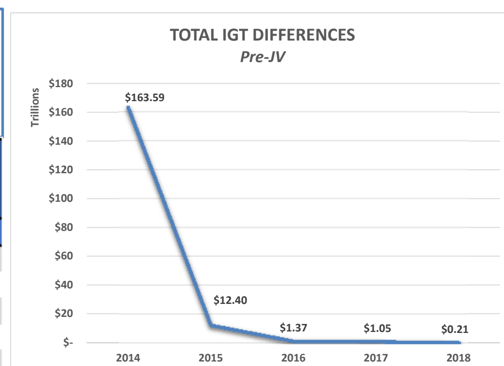
"If two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements."

- FY 2018 U.S. GOVERNMENT ACCOUNTABILITY OFFICE INDEPENDENT AUDITOR'S REPORT

Completing the IGT Model
IGT Accomplishments FY17 – Trend Analysis

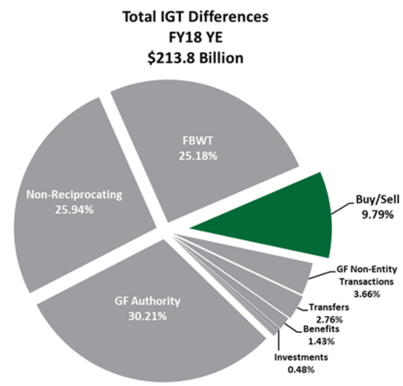
Pre-JV Differences between FY17 and FY18 reduced by 80% or $835 billion.

TOTAL INTRAGOVERNMENTAL DIFFERENCES FY14-FY18 *Pre-JV*	
FISCAL YEAR	TOTAL IGT DIFFERENCES
2014	$ 163,589,925,945,410.00
2015	$ 12,399,948,566,047.10
2016	$ 1,369,805,741,908.21
2017	$ 1,048,461,073,065.37
2018	$ 213,777,998,988.95



Sub-Category Statistics
Buy/Sell Activities

- Buy/Sell Transactions
  - **Buy/Sell** elimination differences are **$21 billion** out of the $214 billion
  - Top Buy/Sell elimination differences
    1. Communication/Timing Issues $5.4 billion
    2. Judgment Fund (Intragovernmental Allowance Issue) $3.7 billion
    3. Capitalized Assets $1.5 billion



What causes the elimination issue?
Intragovernmental Difference

- Intragovernmental Allowance for Losses Elimination Issue:
  - Agency 1
    - Accounts Payable $100

$100

  - Agency 2
    - Accounts Receivable $100
    - Allowance of Loss on Accounts Receivable ($80)

$20

Treasury Set Policy
Intragovernmental Receivables – No Allowance for Losses

- Consistent treatment of intragovernmental transactions
- Federal government is one legal entity
  - No question regarding collectability
  - Implicit requirement for federal entity components to repay amounts
  - Congress has taken action in the past to make federal entities whole
- Statue or law requires that the receivable be reimbursed
  - Requirement to repay Contract Disputes Act (CDA) amounts paid out of the Judgment Fund per 41 U.S. Code Section 7108
- FASB states that consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise; therefore, such statements do not include gain or loss on transactions among the companies in the group

Judgment Fund

A permanent, indefinite appropriation available to pay:

- Judicially and administratively ordered monetary awards against the United States as allowed under 31 U.S.C. §1304
- Amounts owed under compromise agreements negotiated by the U.S. Department of Justice in settlement of claims arising under actual or imminent litigation, if a judgment on the merits would be payable from the Judgment Fund

Reimbursable Programs – Agencies are required by law to reimburse the Judgment Fund

1. Contract Disputes Act (CDA) – 41 USC 7108

Reimbursement - Payments made pursuant to subsections (a) and (b) shall be reimbursed to the fund provided by section 1304 of title 31 by the agency whose appropriations were used for the contract out of available amounts or by obtaining additional appropriations for purposes of reimbursement.

2. No FEAR Act of 2002 – Public Law 107-174

Requirement - An amount equal to the amount of each payment described in subsection (a) shall be reimbursed to the fund described in section 1304 of title 31, United States Code, out of any appropriation, fund, or other account (excluding any part of such appropriation, of such fund, or of such account available

Judgment Fund – Intragovernmental Differences

- Federal Program Agencies are notified within 30 days after payment is made of the obligation to reimburse the Judgment Fund.
- Federal Program Agencies lack the monies necessary to repay the Judgment Fund and must typically request the funds from Congress.
- Accounts receivable and payable balances remain on the books for long periods of time, due to the lack of funds for reimbursement. The accounting treatment of the receivables and payables leads to intragovernmental differences.
- The intragovernmental differences are part of a material weakness in the Financial Report of the United States Government.
- The recommendation is to discontinue reporting USSGL 131900 "Allowance for Loss on Accounts Receivable" for Federal Program Agencies on reimbursements to the Judgment Fund.

Judgment Fund - Reimbursable Balances FY2018

No FEAR Balances

Partner Code	Agency Name	Receivable Balance
017	Department of the Navy	$93,000.00
021	Department of the Army	$58,000.00
097	Other Defense Agencies	$135,000.00
	Total Defense	**$286,000.00**
013	Department of Commerce	$13,920,233.00
015	Department of Justice	$25,000.00
036	Department of Veterans Affairs	$529,000.00
045	Equal Employment Opportunity Commission	$50,000.00
070	Department of Homeland Security	$999,608.73
075	Department of Health and Human Services	$60,000.00
	Total Other Agencies	**$15,583,841.73**
	Grand Total	**$15,869,841.73**

Contract Disputes Act Balances

Partner Code	Agency Name	Receivable Balance
017	Department of the Navy	$15,357,291.87
021	Department of the Army	$21,015,694.47
057	Department of the Air Force	$21,013,105.02
096	Corps of Engineers, Civil	$499,128,228.37
097	Other Defense Agencies	$16,980,450.27
	Total Defense	**$573,494,770.00**
000	Unknown	$215,000.00
012	Department of Agriculture	$26,300,129.27
013	Department of Commerce	$12,312,060.73
014	Department of the Interior	$1,221,373,036.14
019	Department of State	$4,909.23
024	Office of Personnel Management	$6,445,355.47*
033	Smithsonian Institution	$94,000.00
036	Department of Veterans Affairs	$233,380,605.09
047	General Services Administration	$496,751,202.09
049	National Science Foundation	$2,999,941.00
068	Environmental Protection Agency	$22,000,000.00
069	Department of Transportation	$12,246,575.79
075	Department of Health and Human Svcs	$1,155,362,331.71
080	National Aeronautics and Space Admin	$7,674.00
088	National Archives and Records Admin	$245.00
089	Department of Energy	$382,993,664.36
Nonfederal	Army and Air Force Exchange Svc	$1,800,000.00
Nonfederal	US Virgin Islands	$179,311.40
	Total Other Agencies	**$3,568,020,685.81**
	Grand Total	**$4,141,515,455.81**

*There is an additional $253,378,084.95 in receivables related to FEHBP claims.

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Intragovernmental Allowance for Losses

Office of the DCFO
Accounting and Audit Considerations

April 2019

MANAGEMENT

ACCOUNTING HIERARCHY

- FASAB Standards are considered “Level A GAAP”; Treasury and OMB policy are considered “Level D GAAP”.
- The Fiscal Service Policy Memo does not supersede the GAAP accounting hierarchy.
- Prevailing source of accounting principles for selecting the principle used in recording (or not recording) allowance for doubtful accounts is still SFFAS No. 1, para 44, notwithstanding future FASAB changes.

MANAGEMENT

ACCOUNTING INTERPRETATION

- **Accounting Interpretation** - SFFAS No. 1 allows for varying degrees of interpretation when considering the treatment/application of allowance for doubtful accounts for these unique Judgment Fund intragovernmental receivables.
  - "FASAB is not explicitly clear on whether SFFAS No. 1, par 44, [45, or 47] applies to intragovernmental receivables," (Policy Memo p. 2) implying that there could be a delineation in the application of doubtful accounts against "public" and "intra-governmental receivables."
    - *Further Accounting/Auditing Consideration: Could FASAB's silence in paragraphs 44, 45, and 47 regarding a distinction between public and intragovernmental receivables be interpreted as permitting such delineation?*
  - "FASAB is also silent on the issue of recognition of losses when a statute or law requires that a receivable be reimbursed." (Policy Memo p. 2)
    - *Further Accounting/Auditing Considerations: Could SFFAS's No. 1's "silence" be interpreted as (1) precluding recording allowance for intragovernmental receivables or, (2) in light of this silence, the standard's principle should apply to all receivables (public and intra-governmental)?*
  - "In the absence of an explicit FASAB standard for accounting treatment of intragovernmental receivables, the **legal requirement** for agencies to repay amounts that **prohibit write-offs**, and the fact that intragovernmental receivables exist within the **same legal entity**, the policy in the federal government is that no allowance for loss will be recognized in federal agencies' accounting records or financial statements for intragovernmental receivables." (Policy Memo p. 3)
    - *Further Accounting/Auditing Considerations: Does the 'legal requirement" to repay alone support the position that an allowance is inappropriate as there are likewise legal requirements for industry to re-pay receivables in accordance with binding contracts/agreement which often times is never repaid?*

MANAGEMENT

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FINANCIAL REPORTING & AUDIT CONSIDERATIONS

- ODCFO would have to consider how to characterize the removal of the JF allowance from a financial reporting and audit perspective. A "change in accounting principle" would not be appropriate in this situation (see Accounting Hierarchy point above).
- Removing Treasury's JF allowance would likely be considered an unrecorded misstatement of approximately $4B and would be added to Treasury's existing $15B included on the auditor's Summary of Unrecorded Misstatements (SUM).
- Treasury's auditors would have to further analyze to determine whether this misstatement would impact their assessment of the existence of control deficiencies with consideration for the fact that these JF receivable balances have more than doubled over the last six years.
- Treasury's auditor would have to assess the SUM and control deficiencies in totality to determine the impact on their overall consolidated audit opinion.

MANAGEMENT

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FINANCIAL REPORTING IMPACT ASSESSMENT

[For illustrative purposes only]

(in millions)		2018		Removal of Allowance for Loss on Accounts Receivable		Impact - Revised 2018
ASSETS						
Intra-governmental Assets						
ABC	$	##,###,###	$		$	##,###,###
Other Intra-governmental Assets		770		3,687		4,457
Total Intra-governmental Assets		23,601,994		3,687		23,605,681
DEF		###,###				###,###
Total Assets (Note 14)	$	24,273,755	$	3,687	$	24,277,442
LIABILITIES						
Intra-governmental Liabilities						
GHI		##,###				##,###
Due To the General Fund (Note 4)		2,072,917		3,687		2,076,604
Total Intra-governmental Liabilities		7,905,604		3,687		7,909,291
JKL		#,###				#,###
Total Liabilities (Note 18)		23,777,942		3,687		23,781,629
NET POSITION						
Total Net Position (Note 19)		###,###				###,###
Total Liabilities and Net Position	$	24,273,755	$	3,687	$	24,277,442

MANAGEMENT

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