

FASAB Update



Tuesday, April 21, 2015

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- The Board expresses its views in official publications.

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OVERVIEW

- Reporting Model (Ross Simms)
- Leases (Monica Valentine)
- Public-Private Partnerships (Domenic Savini) and Risk Assumed (Robin Gilliam)
- Implementation Guidance (Melissa Loughan and Grace Wu)
- Tax Expenditures (Wendy Payne)

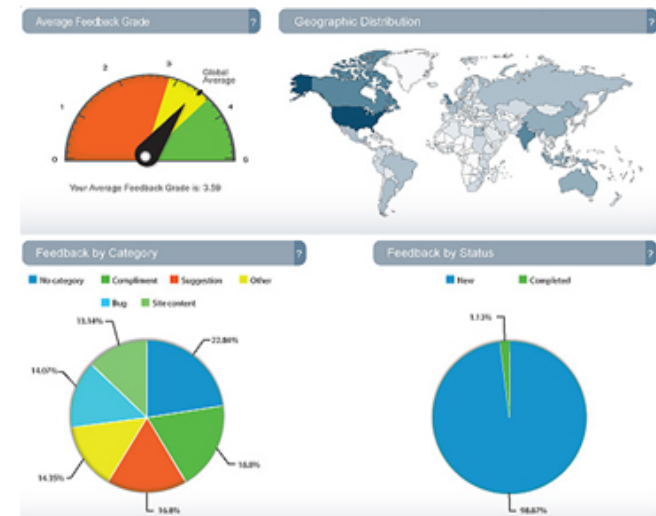
Reporting Model

- Which is Better?

Volumes of Reports



Key Items of Information with Links to Details



Reporting Model

- Objective
 - Better achieve
 - Users' needs
 - Reporting objectives

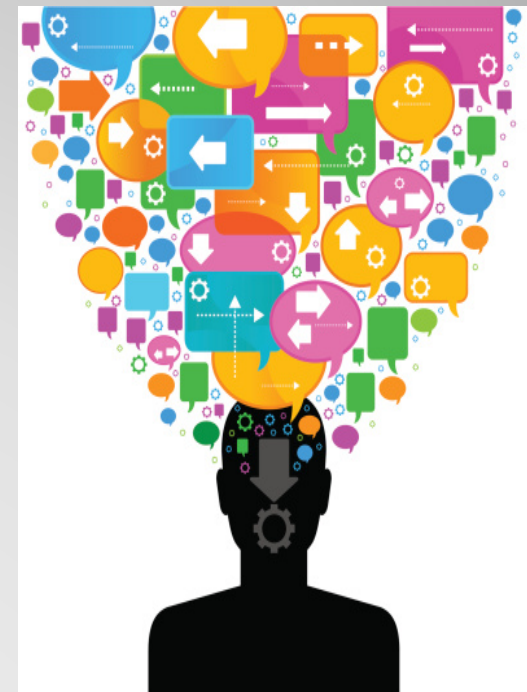
Reporting Model

- Input to the Board:
 - User needs surveys, focus groups, and roundtables
 - FASAB Task Force on Government-wide Financial Reports (Dec 2010)
 - CFO Act 20-Year Report
 - Input from task forces focusing on agency level reporting on cost, budget and performance
 - Statement of spending pilots
 - Study of other sovereign government practices
 - NAPA Study
 - Expert presentations
 - Budget
 - Component Level Reporting

Reporting Model

Users sought

- Cost Information
 - Cost of programs or functions
- Budget Information
 - More understandable
 - Budget to Actual Comparison
- Performance Information
 - What were the results?
- Integration
 - Cost, Budget, and Performance



Reporting Model

Challenges observed

Presently...

- Financial statements
 - highly aggregated
 - Static
 - Present cost by strategic goals
- Multiple sources of information available through websites
 - GAAP
 - Non-GAAP
- Multiple measurement bases
 - Accrual, budget, projections
- Spending is mostly mandatory not discretionary

However...

- Users also looking to
 - Review functions or programs
 - Make comparisons
 - Drill-down
 - Access data
 - Create their own reports
 - Identify trends, patterns
 - Analyze performance
 - Compare budgeted to actual

Reporting Model

How should financial reporting...

- Relate GAAP and non-GAAP sources
- Help users understand
 - Differences between government-wide and component financing
 - The relationship among the different measurement bases
 - Mandatory vs. discretionary spending
- Facilitate multi-dimensional analyses

Reporting Model

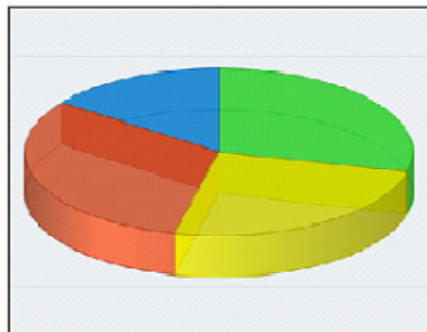
Given the variety of issues
the model can take different paths



Reporting Model - Example

[HOME](#)[ABOUT](#)[CITIZENS](#)[CONGRESS](#)[ANALYST](#)[NEWS](#)[FAQS & RESOURCES](#)[CONTACT US](#)[SITE INDEX](#)

Net Costs of Operations: 2010



What the Government owes and owns



Debit held by the public



1 2 3 4 5 || ▶

Other Charts

Current Efforts and Accomplishments

- * American Recovery Act (ARRA)
- * Emergency Economic Stabilization Act (EESA)
- * Troubled Asset Relief Program (TARP)

Long Term Fiscal Outlook

- * Deficits and Interests
- * Medicare
- * Medicaid
- * Social Security

Key National Indicators

- * Balance of Trade
- * U.S. and World Monetary Fluctuations
- * National Savings Rate

Broad Risks (Dependencies)

- * States and Local governments face long term pressures (CAO -10-358)

Reporting Model - Example

Management's Discussion and Analysis

Agencies

Search

Go

HOME

ABOUT

CITIZENS

CONGRESS

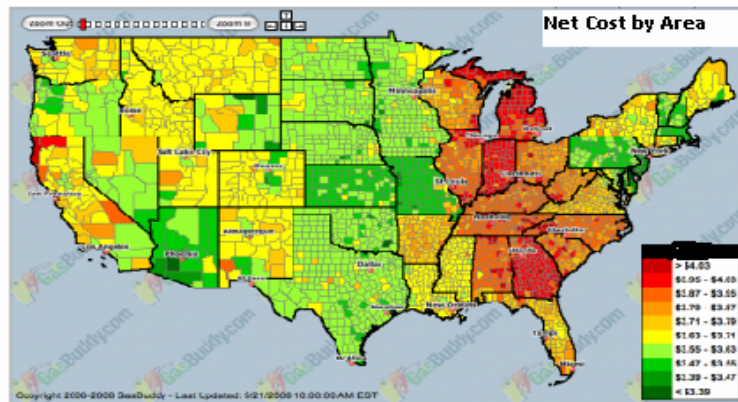
ANALYST

NEWS

FAQS & RESOURCES

CONTACT US

SITE INDEX



Vital Signs

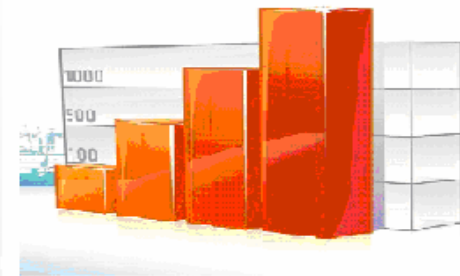
Key Programs

Costs

Accomplishments

Looking Ahead

Key Charts & Tables



1 2 3 4 5 || >

Other Charts

Go

Mission and Organizational Structure

- * Mission
- * How we Serve America
- * Key Programs
- * Organizational Structure

Key Performance Goals, Objectives, and Results

- * Top Performance Goals and Results
- * Cost Information

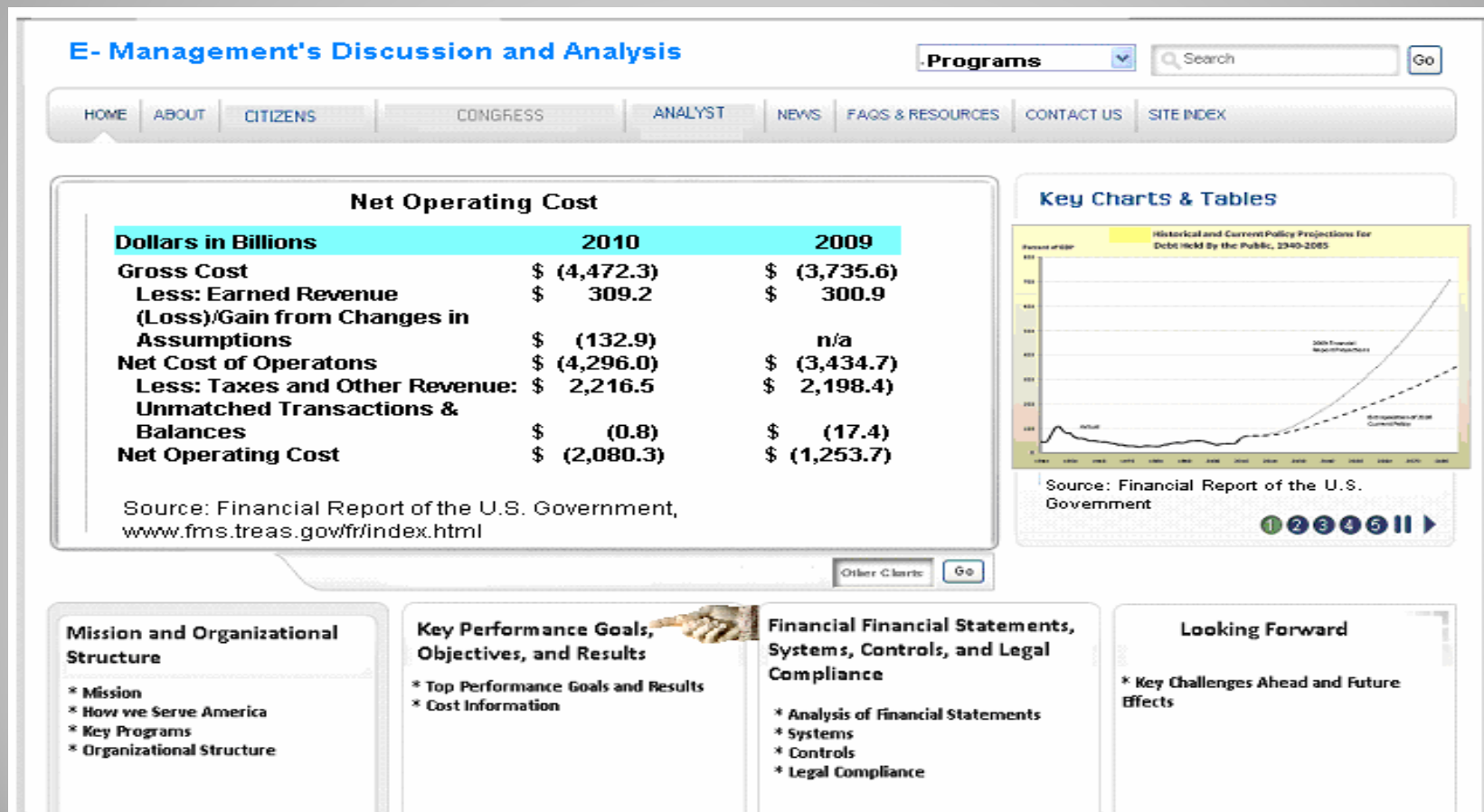
Financial Financial Statements, Systems, Controls, and Legal Compliance

- * Analysis of Financial Statements
- * Systems
- * Controls
- * Legal Compliance

Looking Forward

- * Key Challenges Ahead and Future Effects

Reporting Model - Example



Reporting Model – Example

E - Management's Discussion and Analysis

Program Performance Catalog

Home

Programs

Agencies

Functions

Programs

RETURN TO HOME

Programs

Advanced Search

Historical Index

Search Tip: Use the [Advanced Search Form](#) for a wide array of search fields. To view programs by agency, go to the [Agencies](#) section. A quick search can be conducted using the fields below.

Note : Once you have found the Federal assistance program you want, please contact the office that administers the program for application instructions.

Keywords: earthquake

More Search Fields

Search



Clear

Save Checkmarked Items To Excel

Items 1-11 of 11

		# ▼	Program Title ▼	Agency/Office ▼
<input type="checkbox"/>			National Earthquake Hazards Reduction	
<input type="checkbox"/>			Engineering	National Science Foundation
<input type="checkbox"/>			Computer and Information Science and Engineering	National Science Foundation

Reporting Model - Example



National Earthquake Hazards Reduction Program

A research and implementation partnership

[Back](#) [Print](#)

Program Information

Objectives

To develop, disseminate, and promote knowledge, tools, and practices for earthquake risk reduction through coordinated, multidisciplinary, interagency partnerships among the NEHRP agencies and their stakeholders that improve the Nation's earthquake resilience in public safety, economic strength, and national security.

Illustrative Net Costs for FY 2010 (\$M)

Improve understanding of earthquake impacts	\$ 41.5
Develop measures to reduce earthquake impacts	25.8
Improve resilience of communities nationwide	24.3
Develop, operate, and maintain facilities	9.3
Total	\$ 131.2

Program Accomplishments

CONTACT INFORMATION

Website:
<http://www.nehrp.gov/index.htm>

GENERAL INFORMATION

Agencies

Federal Emergency Management Agency
National Institute of Standards and Technology
National Science Foundation
U.S. Geological Survey

Reporting Model – Example

NET COST HOME ACCOMPLISHMENTS NET COST 20X4 FEDERAL NEWS STATEMENT OF NET COST

Statement of Net Costs

Illustrative Statement of Net Costs

(in billions of dollars)

Function	Spending (Outlays)	20X4			Spending (Outlays)	20X3		
		Plus net cost included in past budgets	Plus net cost to be included in future budgets	Resulting net cost		Plus net cost included in past budgets	Plus net cost to be included in future budgets	Resulting net cost
Social security	757		122	879	645		58	703
National defense	696	-80	249	865	597		160	692
Income security	674		102	776	588		32	620
Medicare	500		62	562			39	449
Health	400		59	459	320		47	367
Interest	235		10	245	178		18	196
Education, training, employment, and social services	125		30	155	94		30	124
Veterans benefits and services	108		26	134	85		22	107
Transportation	92		22	114	77		14	91
Other	88	-241	260	107	60	-10	35	85
Total	3,675	-321	942	4,296	3,054	-75	455	3,435

"You clicked on Income Security."

Income security includes the benefits paid to the aged, disabled, unemployed, and low-income families. Here is a break-down of the 20X4 costs:

(in billions of dollars)

General retirement and disability insurance	10
Federal employee retirement and disability	140
Unemployment compensation	211
Housing assistance	96
Food and nutrition assistance	119
Other income security	200
Total	776

"Click on other numbers and I will provide you with details."

Reporting Model

- Project Status
 - Board developing concepts statement
 - Concepts should guide development of ideal reporting model

Leases

The Leases project objective is to improve the existing lease accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*.

- Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with Statement of Federal Financial Accounting Concepts (SFFAC) 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.
- Ensure that the standards to be developed fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases).

Leases

- Current FASAB standards addressing leasing transactions include SFFAS 5 *Accounting for Liabilities of the Federal Government* [pars. 43 – 46] and SFFAS 6 *Accounting for Property, Plant, and Equipment* [pars. 20 & 29].
- These lease standards were originally developed from Financial Accounting Standards Board (FASB) lease standards effective at that time.

Leases

- Question: Once the new FASB/IASB lease standards are issued as final, should federal entities that present general purpose financial reports in conformance with SFFAS 34 follow those new FASB/IASB lease accounting standards?
- Answer: No. Issuance of the new FASB/IASB standards will not automatically change federal financial accounting standards.

Leases

Why is a project on lease accounting needed?

- The current lease accounting standards, SFFAS 5 and 6, have been criticized as not making meaningful distinctions between types of leases
- The current standards are not providing sufficient guidance to the federal community given the uniqueness of some federal lease activities
- The information needs are evolving
- The current standards are based FASB lease accounting standards which are currently being revised

Leases

Project Resources

- Other Standard Setters – GASB & FASB/IASB
 - Consider the merits of the revised GASB & FASB/IASB standards
- FASAB Lease Task Force
 - Issues and practices in the federal domain
 - A solution that meets federal financial reporting objective.

Leases

Are all leases financings?

Leases

Tentative FASAB Decisions

- All Leases are Financings
- Accounting for both the Lessee and Lessor
- Two Major Exceptions to Financing Premise
 - Intragovernmental Leases
 - Short-term Leases

Leases

Tentative FASAB Decisions (con't)

- All leases with parties outside the federal government result in an asset and a liability.
- Adopt language as similar to GASB's lease standard.
- A lease is a contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Leases

- Intragovernmental Lease is a lease occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, *Reporting Entity*.
- Approach will be similar to current operating lease standards.

Leases

Commonalities in Proposals

(Between FASAB, GASB, FASB, & IASB)

- Lessees will recognize a lease liability and a corresponding right-of-use asset for all leases (with exceptions)
- Definition of a lease

Leases

Key Differences in Proposals

(Between FASAB, GASB, FASB, & IASB)

- Single-model approach vs. dual-model approach
- Lessor derecognition of the carrying value of underlying asset

Leases

Tentative Timelines

- GASB – ED expected early 2016 and final standard early 2017
- FASB/IASB – Final standards expected late 2015
- FASAB – ED expected early 2016 and final standard early 2017 (*to align with GASB's timeline*)

Public-Private Partnerships

Overall goal - Making the full costs of P3s transparent

- Governments increasingly use innovative approaches to partnering with non-governmental entities.
 - **Benefits include:**
 - Risk sharing
 - Enhanced performance incentives
 - Financing arrangements to avoid large up front investments of taxpayer funds
 - **Arrangements may obscure costs and results.**
- The project will consider how the lease and entity standards may be applied to such arrangements and fill any voids in the standards.



Public-Private Partnerships

- April 2012 - Project added to Agenda
- February 2013 to May 2014 – Task Force & Fact Finding meetings:
 - Major risks identified
 - Draft definition, risk characteristics, and disclosures developed
- October 2014 - ED with Alternative View issued
- January 2015 to present-
 - Additional staff analysis and Board re-deliberations begin
 - Sticking point: disclosing risks in light of SFFAS 5, *Accounting for Liabilities of the Federal Government*

Identifying Reportable P3s Process Flowchart



First filter - Paragraphs 14 and 15. Only include arrangement or transaction if it meets the P3 definition and is not excluded.

Second and Third filters - Paragraphs 18 and 19. Only include arrangement or transaction if it meets one of the Conclusive characteristics or when considered in the aggregate, the Suggestive Characteristics.

Fourth filter - Paragraph 20. An eligible P3 should be disclosed if it is either quantitatively or qualitatively material.

Reportable P3 - Paragraphs 21 - 25. Report specific disclosures

Types of Risks

Generic P3 Risks:

- General political risks
- Site-related risks
- Construction risks
- Completion risks
- Operation-phase risks

Some specific P3 Risks noted by Board:

- Actual costs will be greater than budgeted costs
- The entity may have to absorb part or all of the project's private debt
- The entity will not achieve expected returns on its investments in limited partnerships
- Conditions may lead to a government -
- acknowledged event where an entity assumes financial responsibility for the event
- The public purpose or public value will not be fulfilled or achieved



RISK ASSUMED (RA)

Project objectives are to:

- Determine what risks the federal government assumes when implementing policy initiatives to provide safety and stabilize financial markets and the economy.
- Update current standards that are limited to insurance contracts and explicit guarantees (other than loan guarantees).
- Account for and report all significant risks assumed in order to meet the stewardship and operating performance objectives of federal financial reporting.

RISK ASSUMED (cont)

-Three Phases-

- Phase I: Insurance Programs
- Phase II: Entitlement Programs, including:
 - National Defense,
 - Security and Disaster response
 - Other potential effects on future outflows:
 - regulatory actions,
 - Government Sponsored Enterprises (GSEs), etc.
- Phase III:
 - Commitments
 - Obligations
 - Other risk areas

RA – Phase I: Insurance Program

What do we know about risk assumed and federal insurance programs?

By working with our Task Force, we know that:

- Federal insurance programs usually fill a gap for a certain amount of time or money, where the insurance industry is not willing or able to manage certain risk factors.
- Each program is unique due to the risk factors they must manage and complicated due to many uncertainties.

RA – Phase I: Insurance Program

What do we know about risk assumed and federal insurance programs?

We know that:

- Risk is not a single number and that the following are possible balance sheet accounts that, along with disclosures, that can tell the whole story about risk assumed:
 - Liability for unpaid claims
 - Unearned premiums
 - Liability for losses on remaining coverage

RA – Phase I: Insurance Program

What do we know about risk assumed and federal insurance programs?

We know that there are challenges with our current standards, resulting in inconsistent reporting due to unclear:

- Definitions and terminology
- Recognition and measurement for contingent liabilities
 - no consistent actuarial method for estimating future losses.
- Disclosures for risk assumed
 - no defined time period to base estimates for future losses against
 - no information to tell the whole story about risk assumed

RA – Phase I: Insurance Program

What will we answer and account for in the updated standards?

We are developing an exposure draft to capture all current and future insurance programs through updated definitions and terminology, in order to consistently account for and answer:

- How much money was collected through premiums?
- What amount of claims were filed and paid for by the balance sheet date?
- Did premiums cover our claims? If not, why not?

RA – Phase I: Insurance Program

What will we answer and account for in the updated standards?

Continued:

- Were subsidies (appropriations and/or borrowing) necessary, and, if so, why?
- Can we pay back borrowings, if not, why not?
- What do we expect to pay out for the remaining coverage – the open contracts that extend beyond the balance sheet date?
 - Is there a related liability, where estimated losses are greater than unearned revenue?
- What is our coverage in force (maximum loss)?

RA - Insurance Programs -



For more information, see the risk assumed project page at:

<http://www.fasab.gov/projects/active-projects/risk-assumed/>

If you have any questions after the session and/or want to join the task force please contact Robin Gilliam at:

gilliamr@fasab.gov

(202) 512-7356

DoD Implementation Guidance

- Valuation of legacy inventory and operating material & supplies
- Deployed Assets- closed with no need for FASAB action
- Research & Development Costs (now focus w/AAPC Internal Use Software)

As needed with DoD FIAR (Financial Improvement and Audit Readiness)

DoD Implementation Guidance

- Valuation of legacy inventory and operating material & supplies
- Project History
- Shared goal - **practical cost effective guidance**
- Determined **status of implementation of SFFAS 3 compliant systems**
- Propose that **alternative valuation methods for establishing opening balances** would be needed to move DoD forward

DoD Implementation Guidance

- Applied: when presenting FASAB GAAP financial statements (f/s) for the first time or after a period when systems could not provide information to produce such f/s (**available once**)
- Permits alternative valuation methods in **establishing opening balances** for the reporting period the reporting entity makes an unreserved assertion that its f/s or this element are presented fairly in accordance with GAAP
- **Deemed cost** = amount used as a surrogate for initial amounts. It is the opening balance and is thereafter considered consistent with SFFAS 3 requirements. No distinction or segregation of deemed cost is required going forward.
- **Disclosure** is required when the reporting entity as a whole makes an unreserved assertion. This **allows** Military Departments to transition to SFFAS 3 compliant systems to assert first. Then DoD can make a DoD wide assertion.
- ED addresses **valuation** for opening balances; it does not address supporting documentation.

DoD Implementation Guidance

Projected (subject to change)

- April 2015: Present Draft ED
- June-September 2015: ED open for Comments
- October 2015: Consideration of Comments & Public Hearing
- December 2015: Board approval of final SFFAS
- March 2016: Final SFFAS issued after 90-day review by sponsors

Staff Draft Interpretation – G-PP&E

- Clarifies that principles within SFFAS 6 and 23:
 - current cost would include all capital improvements
 - this approach may be applied to all classes of G-PP&E
- Estimates may be applied to construction work in process in accordance with SFFAS 35

Internal Use Software

- Feb / Mar 2014: Presented Working Group's findings and recommendation to AAPC and FASAB
- Board requested that the WG pursue two concurrent avenues:
 - Perform research on information relevant to the Users of the Financial Statements to determine if a change to the standard would be appropriate
 - Draft implementation guidance for IUS

Internal Use Software (cont.)

- Met with OMB to understand budgetary reporting requirements
- Interviewed Program Managers from select agencies to understand goals and software investment decisions
- Working Group believes that a change to the standard that does not completely remove the reporting requirement within the financial statements and notes would cause agencies to incur costs that would exceed the expected benefit

Internal Use Software (cont.)

- February 2015: The IUS Working Group held a re-entrance meeting to re-engage agencies in drafting Implementation Guidance
- Guidance will consist of two major topic areas and extensive research are performed in those areas:
 - Standard clarification
 - Practical examples of implementation
- More agencies who have successfully undergone an audit of their IUS balances joined the IUS Working Group
- DoD initiated IUS policy review and worked in concert with initiative to draft Implementation Guidance

Tax Expenditures

- Revenue losses attributable to provisions of Federal income tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability. (Section 3(3) of Public Law 93-344)

Questions?

Contact and Website Information

- General inquiries can be directed to fasab@fasab.gov
- Phone: 202 512-7350
- www.FASAB.gov
 - Listserv (sign up for emails)
 - Exposure Drafts
 - Active Projects – assigned staff