FASAB Update for the GWSCPA GAAC

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Chairman
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Disclaimer

• Views expressed are those of the speaker. The Board expresses its views in official publications.

Overview

• Recently Completed Projects
  – Comprehensive Long-Term Fiscal Projections (SFFAS 36 – Sept 2009)
  – Social Insurance – Additional Requirements (SFFAS 37 - April 2010)
• Current Projects
  – Federal Financial Reporting Model
  – Federal Entity
  – Deferred Maintenance
  – Earmarked funds

Financial Statements

• “Traditional” with some twists
  – Statement of Net Cost
  – Statement of Operations and Changes in Net Position
  – Balance Sheet
• Budgetary
  – Reconciliations of Net Operating Cost and Deficit
  – Statement of Changes in Cash Balances from Deficit and Other Activities
• Prospective
  – Statement of Long-Term Fiscal Projections
  – Statement of Social Insurance
  – Statement of Changes in Social Insurance
SFFAS 36 - Comprehensive Long-term Fiscal Projections

• Basic Information (audited)
  – the present value of projected receipts and non-interest spending under current policy without change including its relationship to projected GDP
  – changes in the present value of projected receipts and non-interest spending from the prior year
  – the assumptions underlying the projections
  – factors influencing trends
  – significant changes in the projections from period to period

SFFAS 36 - Comprehensive Long-term Fiscal Projections, cont.

• Required Supplemental Information
  – the projected trends in:
    • the relationship between receipts and spending
    • deficits or surpluses
    • Treasury debt held by the public as a share of GDP
  – possible results using alternative scenarios
  – the likely impact of delaying corrective action when a fiscal gap exists ("cost of delay")

The Sustainability of Fiscal Policy

An important purpose of the Financial Report is to help citizens and policymakers assess whether current fiscal policy is sustainable and, if it is not, the urgency and magnitude of policy reforms necessary to make it sustainable. A sustainable policy is one where the ratio of debt held by the public to GDP (debt to GDP) is stable over time. The discussion below focuses on balancing revenues and expenditures over time, and does not consider fairness or efficiency implications of the reforms necessary to achieve sustainability.

It is shown below that, under current policy, the ratio of debt to GDP is projected to rise continuously over the next 75 years, eventually exceeding 350 percent in 2085. If these projections were extended beyond 2085, the deficit excluding interest would continue as the population continues to age and if the other assumptions made for the 75-year horizon continue to hold. The persistence of the deficit excluding interest beyond the 75-year horizon implies that the ratio of debt to GDP would continue to grow beyond the 75-year horizon. The continuing rise in this ratio means that current policy is unsustainable.

Costs of Delay

<table>
<thead>
<tr>
<th>Period of Delay</th>
<th>Change in Average Primary Surplus</th>
<th>Change in Long-Term Fiscal Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ten Years: Reform in 2011</td>
<td>0.9 percent of GDP between 2013 and 2030</td>
<td>1.7 percent of GDP between 2001 and 2020</td>
</tr>
</tbody>
</table>

SFFAS 37 - Social Insurance – Additional Requirements

- Together in one section in management’s discussion and analysis – critical information about costs, assets and liabilities, social insurance commitments, budget flows, and the long-term fiscal projections
- A new summary section within the statement of social insurance displaying open and closed group measures
- A new basic financial statement to present the reasons for changes during the reporting period in the open group measure reported on the statement of social insurance

Current Projects

Federal Reporting Model

- Concerns exist regarding the benefits of accrual basis financial statements relative to the cost of preparing them
  - FASAB conducting a user needs study
  - Federal CFO Council preparing a proposal
  - Recently developed a report on experiences in other countries with the assistance of OECD and its members (report will be available soon at [http://www.fasab.gov/conceptsfinan.html](http://www.fasab.gov/conceptsfinan.html))
- FASAB Task Force report issued December 22nd
Federal Reporting Model

CFR Recommendations

- Web delivery model
- Government-wide performance information
- Net cost and spending by function
- Statement of spending requirements
- Intergovernmental financial dependency
- Improved reconciliation of deficit and operating cost
- Reclassify the reconciliation of cash and debt changes
- Re-orient the balance sheet and improve stakeholder link
- Explain the difference between net liabilities and fiscal gap
- Establish a web-site for reports and raise awareness in the near-term

Federal Reporting Model

Next Steps

- Consider implications of user needs study and task force recommendations for existing concepts
- Consider input from the CFO Council/CIGIE joint study of the CFO Act at 20 years
- Study of component entity reporting model

Federal Entity

- FASAB established concepts in mid-90’s
- Standards now being developed
- Questions:
  - What to include in CFR (all entities “established by” the federal government or a subset)?
  - How to present information (all consolidated, some separately displayed or disclosed)?
  - Boundary between “related” parties, core and non-core entities?

Deferred Maintenance and Asset Impairment

- Deferred maintenance viewed as critical management issue
- Experimental reporting has been underway since 1998
- Definitions – revised definition and title (deferred maintenance and repairs)
- Exposure draft on DM&R expected by the end of the month:
  - Eliminates condition reporting and option to report a range
  - Emphasizes consistency
  - Improves requirements for narrative
- Asset impairment standards built from GASB and IPSASB standards
  - Indicators of impairment
  - Techniques for measuring impairment
  - Recognition guidance
Earmarked Funds

• Exposure draft issued TODAY!
• Changing the name to “funds from dedicated collections”
• Excluding funds:
  – supporting federal employee benefits
  – predominantly financed from general funds rather than a
dedicated collection
  – allowing combined or consolidated amounts to be presented
  – Providing component entities two presentation options:
    • continue current presentation
    • present amounts for key line items parenthetically

Emerging Issues

• Risk Assumed
• Leases
• Investments in non-federal securities
• Public Private Partnerships

• AAPC – Determining the full cost of PP&E
  – Capacity challenges in a more constrained environment…

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