FASAB Exposure Draft: Questions for Respondents due March 14, 2017

Budget and Accrual Reconciliation

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

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

Please provide your name.

Name: OCFO on behalf of Courtney B. Timberlake, Dep. CFO

Please identify your organization, if applicable.

Organization: Department of Housing and Urban Development

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.

HUD agrees with the proposal to replace the Statement of Financing (SOF) with the New Budgetary Accrual Reconciliation (NBAR). The new presentation is cleaner, more logical, and can more easily crosswalk, provided a narrative is included with the table. Additionally, the NBAR provides a better explanation for delineating the relations and differences between budgetary and financial accounting. By focusing the reconciliation on net outlays instead of budgetary resources obligated, the NBAR provides a better tool to explain how budgetary and financial accounting relate and how they diverge as they are presented on two different accounting basis. The NBAR maintains consistency with the reconciliation of the Unified Budget Deficit and Net Cost of Operations included in the government-wide accounting financial report, which is also based on receipts and outlays.

Budget and Accrual Reconciliation

The SOF, including the non-budgetary resources/means of financing, can make it confusing for a reader not steeped in means of financing constructs to crosswalk net costs to deficit impacts/fiscal position. However, HUD would recommend:

1. Not calling it "New", since the budget is not necessarily new and it could be confusing, but rather calling it the budget and accrual reconciliation; and

2. Consideration of negative subsidy receipts. The ED states that budget receipts not available to the entity would not be included, but this would seem to provide an incomplete view on the results of operations/net costs for large negative subsidy programs like MMI.

Regarding the presentation of the NBAR as part of basic financial statements or as a footnote, HUD program offices have expressed two distinct points of view.

- Footnote: The NBAR should be presented as a footnote. The information used to prepare the NBAR can easily be traced or aligned to various lines of the Agency's Financial statements. Presenting the NBAR as a statement may duplicate information that is reported in other statements. Presenting it as footnote would provide additional disclosure of the information already presented in the financial statements. Similar to the previous SOF, some of the information presented will likely be agency specific resulting in audit complexities. (HUD OCFO and FHA)

- Basic Financial Statements: The NBAR should be included as a part of the basic financial statements as it provides a direct bridge between cash basis and accrual basis of accounting used in the preparation of the federal financial statements. The concept of the NBAR is similar to that of the cash flow statement required by the FASB as a part of the basic financial statements and similar to that of the of the reconciliation of the Unified Budget Deficit and Net Cost of Operations presented as a part of the basic financial statements as well. (GNMA)

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.

HUD mostly agrees that narrative disclosure should accompany the NBAR. The disclosure can help provide context that aides the reader in following and comparing the net costs to the outlays reflected in the budget documents. This would assist readers who wish to use financial accounting to better understand performance and budget requests.

The NBAR provides a reconciliation that starts with net costs, presented on an accrual basis, and ends with net outlays, presented on a cash basis. Although most of the reconciling items should be intuitive, narrative disclosures may provide an opportunity to enhance the understandability of the reconciliation and the basic financial statements,

Budget and Accrual Reconciliation

and may provide users of the financial statements with necessary information regarding the nature of and reasons for significant reconciling items. The NBAR may also be a mechanism to provide clarity on credit programs, and other programs that may be reflected in the budgetary accounting on an accrual basis (e.g., residual TARP programs, etc.).

Suggested Change: To better meet the reporting needs of entities, HUD suggests the Board consider making changes that would allow agencies the flexibility to add agency specific line descriptions on the face of the reconciliation of non-cash outlays. This could mitigate the need for each agency to add additional, unnecessary narrative disclosure that would likely be discussed in other areas of the Notes.

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.

HUD generally agrees that the effective date of periods beginning after September 30, 2017, is reasonable and provides financial statements preparers a fair amount of time to adopt the proposed updates, since the majority of the reconciling items come from financial statements' line items.

HUD generally agrees with the option for early adoption. Due to the complexities of the Reconciliation of Net Cost of Operations to Budget as compared to the simplified NBAR, early adoption may be favorable to agencies. Some program offices did note, in the interest of ease of comparison in federal financial reporting, that the Board may wish to instead consider maintaining uniformity across agencies by requiring that every agency have the same implementation date.

HUD generally agrees with the requirement for restatement of comparative prior period information. Comparative prior period information is necessary to help make current information meaningful to the reader and should be included. HUD also has the following comments/concerns.

- While HUD supports displaying comparative information for the NBAR in the financial statements, there is concern that restatement described in the exposure draft would not qualify as formal restatement, as defined by A-136 and SFFAS 21.

- The Board may wish to consider not immediately requiring the restatement of comparative prior period information. To avoid potential confusion in restatement, the Board may wish to consider requiring comparative information be produced starting in the second year of implementation.